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AUGUST 8TH–14TH 2009

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Politics this week

Aug 6th 2009
From The Economist print edition

AP

Bill Clinton held a surprise meeting in Pyongyang with **North Korea's** Kim Jong Il. During the visit the reclusive North Korean dictator pardoned two jailed female American journalists, who had been sentenced to hard labour. They returned to America with the unreclusive Mr Clinton. The White House called his trip a "solely private mission". See article

Pakistan's supreme court ruled that the order establishing General Pervez Musharraf's 2007 state of emergency was unconstitutional. It annulled decrees and ordinances made under the emergency, including lawsuits against the prime minister and his coalition allies. Many high-court and supreme-court judges face the sack. See article

In **Japan's** first trial with jurors since 1943, a 72-year-old man confessed to stabbing his neighbour. See article

Taiwan's president, Ma Ying-jeou, said that the island should sign a proposed free-trade deal with **China** as soon as possible. The government fears losing competitiveness if it is shut out of free-trade agreements that other countries sign with China. The opposition fears such a deal would encourage reunification by stealth. See article

Huge crowds jammed the streets of Manila for the funeral of the **Philippines'** former president, Corazon ("Cory") Aquino, who headed the "people power" revolution that unseated Ferdinand Marcos in the 1980s. See article

Hard times in Havana

Cuba's president, Raúl Castro, said that a long-overdue Communist Party Congress scheduled for later this year would be postponed, and that instead a smaller party conference would choose new leaders. He gave a downbeat account of the island's economy, and announced cuts in "non-essential" spending on education and health. See article

Colombia's president, Álvaro Uribe, embarked on a whirlwind tour of seven South American countries to explain a plan under which American forces would be granted access to seven military bases. Smarting from evidence that Swedish bazookas sold to Venezuela had turned up in a Colombian guerrilla camp, Hugo Chávez, Venezuela's president, cited the base plan as a reason for imposing trade sanctions on Colombia. See article

Venezuela's socialist government shut 34 independent radio stations, claiming that their paperwork was not in order. Mr Chávez also announced plans to nationalise the country's two biggest coffee-roasters, blaming them for shortages. See article

Ending a ten-year legal battle **Karlheinz Schreiber**, a lobbyist for the defence industry, was extradited from Canada to Germany, where he faces charges of bribery and tax evasion. Mr Schreiber was a key figure behind illegal payments to Germany's Christian Democratic Union, and also made cash payments to Brian Mulroney, a former Canadian prime minister.

Judging Sonia

The full Senate deliberated on **Sonia Sotomayor's** nomination to the Supreme Court. A handful of Republicans supported her appointment, which was already assured.

The White House dampened speculation that it was planning to raise middle-class **taxes** after both Tim Geithner, the Treasury secretary, and Lawrence Summers, the head of the National Economic Council, refused to rule out such increases to tackle the deficit. Mr Obama's spokesman said the president was committed to his pledge not to bump up taxes on families making less than $250,000.

William Bratton announced that he would step down as the chief of police in Los Angeles to head a private security firm. Arguably America's most influential cop, Mr Bratton is credited with reducing crime rates and reforming the scandal-plagued LAPD.

Splitting Iranian opinion

AFP

Mahmoud Ahmadinejad was inaugurated as **Iran's** president. But divisions within the ruling clerical establishment remained as deep as ever. Public protests continued against the result of the disputed election of June 12th. See article

More than 2,000 members of Fatah, the **Palestinians'** main secular-minded party, met in Bethlehem, on the Israeli-occupied West Bank, for their first congress in 20 years. They hoped to elect a more dynamic leadership. The prospect of unity with Hamas, the Palestinians' rival Islamist group, remained remote. See article

Nigeria's president, Umaru Yar'Adua, promised an investigation into the recent Islamist uprising in the north of the country that left hundreds dead.

At least 185 people were killed in another bout of intertribal fighting in **South Sudan**. Hundreds have already been killed in similar incidents this year; some southerners accuse the northern government of arming tribal militias.

The trial of Lubna Hussein, a **Sudanese** female journalist arrested for "indecent dressing" by wearing trousers, was put off until next month after an international furore. If found guilty, she could receive 40 lashes and a heavy fine. See article

Niger held a referendum to decide whether its 71-year-old president, Mamadou Tandja, can alter the constitution to let himself run for a third term.

Military overhaul

Nikolai Solovtsov was sacked as commander of **Russia's** strategic nuclear-missile forces. Dmitry Medvedev, Russia's president, has embarked on a wide-ranging reform of Russia's armed forces spurred in part by problems that showed up in last year's conflict with Georgia. General Solovtsov recently oversaw a series of failed test-launches of submarine ballistic-missiles.

Russia signed a deal with Kyrgyzstan to open a second **military base** there. Russian forces will be called on to protect Kyrgyz sovereignty. The Kyrgyz government recently agreed not to close an American air base used for operations in Afghanistan.

Germany's Social Democratic Party promised to create 4m jobs over the next ten years if it wins a general election on September 27th. Polls show the SDP trailing Angela Merkel's Christian Democrats by large margins.

AFP

Around 4,000 people were evacuated from their homes as wildfires raged on La Palma, the fifth-largest of Spain's **Canary Islands**. This fire season is Spain's worst in several years.

Business this week

Aug 6th 2009
From The Economist print edition

UBS posted a SFr1.4 billion ($1.3 billion) quarterly net loss. Net outflows of clients' cash slowed, but still hampered the Swiss bank's efforts to recover from huge losses. It has been hurt also by investigations in America into customer accounts allegedly used for tax evasion. UBS reached a preliminary settlement with the Internal Revenue Service in a civil action on revealing the identities of account holders. It had settled a criminal case with the Justice Department in February. See article

Britain's big banks reported earnings for the first half. **HSBC's** pre-tax profit was $5 billion—a mere half of what it made in the same period last year, but a significant improvement on its loss in the last six months of 2008. Pre-tax profit at **Barclays** was £3 billion ($4.4 billion), 8% higher than a year ago. Neither bank has taken government equity.

Northern Rock, in which the British taxpayer holds a sizeable stake, reported a first-half loss of £725m and revealed that the proportion of its mortgages which were more than three months in arrears had risen to 3.9%. **Lloyds Banking Group** said it had lost £4 billion in the first half of the year, as it grappled with toxic loans at HBOS, which it took over in January. See article

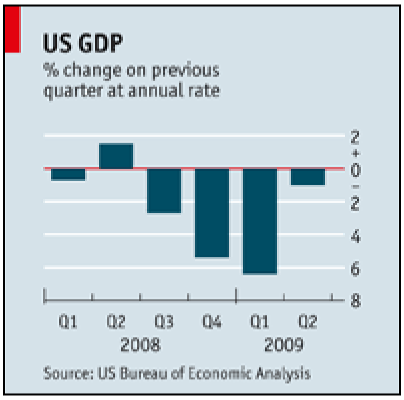
GMAC, a beleaguered American lender, reported a $3.9 billion quarterly loss. The company has received $12.5 billion in public loans since December, and has until early November to fulfil its obligations under the government's "stress test" requirements.

Here to help

America's Treasury found that a $75 billion programme set up in March to assist banks in modifying **mortgage payments** has aided only 9% of eligible borrowers so far. Homeowners can apply if their loan is equivalent to at least 31% of their income and if they are 60 days or more behind with a payment. The Treasury urged banks to do more to push the scheme.

The real economy?

America's economy contracted by 1% at an annual rate in the second quarter, according to an initial estimate. Consumer spending remained anaemic, but there was a noticeable improvement in business spending, which fell by 8.9% compared with 39.2% in the first quarter. The Bureau of Economic Analysis also carried out a comprehensive review of data, and revised GDP growth for 2008 down to 0.4%, from a previous 1.1%. See article



Google's boss, Eric Schmidt, resigned as a director at **Apple**. With Google expanding its mobile-phone and computing businesses, antitrust regulators have started an inquiry into directorships that straddle both companies.

Rupert Murdoch said he expected that all of his websites would charge users for access within a year, despite his previous commitment that only some sites would experiment with such charges. **News Corporation's** boss was speaking as the company revealed a quarterly loss, caused in part by its struggling MySpace social-networking site. The media mogul has sparked an intense debate about ending free access to online news content; many observers remain sceptical that such a plan will work.

Cisco Systems reported a drop in quarterly profit. John Chambers, its chief executive, expressed confidence that the company's recent expansion into dozens of new businesses such as camcorders and visual systems for sports stadiums would eventually help to spur growth.

There was some rare good news from Detroit's troubled carmakers. Sales at **Ford** in July were 2% higher than in the same month in 2008, its first year-on-year gain since November 2007. Sales were down by 9% at **Chrysler** and by 19% at **General Motors**, though this was better than many analysts had expected.

Government drivers

Ford's better fortunes coincided with the start of the politically contentious **"cash-for-clunkers"** programme, giving customers a subsidy for trading in their old vehicles for new, fuel-efficient models. The scheme quickly ran out of cash, but the White House pushed for its replenishment.

Toyota reduced its projected loss for the year and raised its outlook for sales slightly. The carmaker has been helped by, among other things, the Japanese government's car-scrapping incentives and tax reductions on environmentally friendly vehicles.

Nissan took the wraps off its Leaf **electric car.** Unlike the fuel-electric hybrids made by its competitors, Nissan's Leaf runs solely on a battery that can power the car for up to 100 miles (160km) on a single charge. The battery can be recharged in 30 minutes with a special quick charger, though it takes eight hours from an ordinary household socket. Carlos Ghosn, Nissan's boss, predicted that pure electric vehicles could make up 10% of the world's market by 2020.

KAL's cartoon

Aug 6th 2009
From The Economist print edition

Illustration by KAL

Illiberal politics

America's unjust sex laws

Aug 6th 2009
From The Economist print edition

An ever harsher approach is doing more harm than good, but it is being copied around the world

iStockphoto

IT IS an oft-told story, but it does not get any less horrific on repetition. Fifteen years ago, a paedophile enticed seven-year-old Megan Kanka into his home in New Jersey by offering to show her a puppy. He then raped her, killed her and dumped her body in a nearby park. The murderer, who had recently moved into the house across the street from his victim, had twice before been convicted of sexually assaulting a child. Yet Megan's parents had no idea of this. Had they known he was a sex offender, they would have told their daughter to stay away from him.

In their grief, the parents started a petition, demanding that families should be told if a sexual predator moves nearby. Hundreds of thousands signed it. In no time at all, lawmakers in New Jersey granted their wish. And before long, "Megan's laws" had spread to every American state.

America's sex-offender laws are the strictest of any rich democracy. Convicted rapists and child-molesters are given long prison sentences. When released, they are put on sex-offender registries. In most states this means that their names, photographs and addresses are published online, so that fearful parents can check whether a child-molester lives nearby. Under the Adam Walsh Act of 2006, another law named after a murdered child, all states will soon be obliged to make their sex-offender registries public. Such rules are extremely popular. Most parents will support any law that promises to keep their children safe. Other countries are following America's example, either importing Megan's laws or increasing penalties: after two little girls were murdered by a school caretaker, Britain has imposed multiple conditions on who can visit schools.

Which makes it all the more important to ask whether America's approach is the right one. In fact its sex-offender laws have grown self-defeatingly harsh (see article). They have been driven by a ratchet effect. Individual American politicians have great latitude to propose new laws. Stricter curbs on paedophiles win votes. And to sound severe, such curbs must be stronger than the laws in place, which in turn were proposed by politicians who wished to appear tough themselves. Few politicians dare to vote against such laws, because if they do, the attack ads practically write themselves.

A whole Wyoming of offenders

In all, 674,000 Americans are on sex-offender registries—more than the population of Vermont, North Dakota or Wyoming. The number keeps growing partly because in several states registration is for life

and partly because registries are not confined to the sort of murderer who ensnared Megan Kanka. According to Human Rights Watch, at least five states require registration for people who visit prostitutes, 29 require it for consensual sex between young teenagers and 32 require it for indecent exposure. Some prosecutors are now stretching the definition of "distributing child pornography" to include teens who text half-naked photos of themselves to their friends.

How dangerous are the people on the registries? A state review of one sample in Georgia found that two-thirds of them posed little risk. For example, Janet Allison was found guilty of being "party to the crime of child molestation" because she let her 15-year-old daughter have sex with a boyfriend. The young couple later married. But Ms Allison will spend the rest of her life publicly branded as a sex offender.

Several other countries have sex-offender registries, but these are typically held by the police and are hard to view. In America it takes only seconds to find out about a sex offender: some states have a "click to print" icon on their websites so that concerned citizens can put up posters with the offender's mugshot on trees near his home. Small wonder most sex offenders report being harassed. A few have been murdered. Many are fired because someone at work has Googled them.

Registration is often just the start. Sometimes sex offenders are barred from living near places where children congregate. In Georgia no sex offender may live or work within 1,000 feet (300 metres) of a school, church, park, skating rink or swimming pool. In Miami an exclusion zone of 2,500 feet has helped create a camp of homeless offenders under a bridge.

Make the punishment fit the crime

There are three main arguments for reform. First, it is unfair to impose harsh penalties for small offences. Perhaps a third of American teenagers have sex before they are legally allowed to, and a staggering number have shared revealing photographs with each other. This is unwise, but hardly a reason for the law to ruin their lives. Second, America's sex laws often punish not only the offender, but also his family. If a man who once slept with his 15-year-old girlfriend is barred for ever from taking his own children to a playground, those children suffer.

Third, harsh laws often do little to protect the innocent. The police complain that having so many petty sex offenders on registries makes it hard to keep track of the truly dangerous ones. Cash that might be spent on treating sex offenders—which sometimes works—is spent on huge indiscriminate registries. Public registers drive serious offenders underground, which makes them harder to track and more likely to reoffend. And registers give parents a false sense of security: most sex offenders are never even reported, let alone convicted.

It would not be hard to redesign America's sex laws. Instead of lumping all sex offenders together on the same list for life, states should assess each person individually and include only real threats. Instead of posting everything on the internet, names could be held by the police, who would share them only with those, such as a school, who need to know. Laws that bar sex offenders from living in so many places should be repealed, because there is no evidence that they protect anyone: a predator can always travel. The money that a repeal saves could help pay for monitoring compulsive molesters more intrusively—through ankle bracelets and the like.

In America it may take years to unpick this. However practical and just the case for reform, it must overcome political cowardice, the tabloid media and parents' understandable fears. Other countries, though, have no excuse for committing the same error. Sensible sex laws are better than vengeful ones.

Economist.com OPINION LEADERS

Redesigning Europe's biggest economy

Unbalanced Germany

Aug 6th 2009
From The Economist print edition

Europe’s champion is justly proud of its exporters. It also needs to worry about markets closer to home

Michael Morgenstern

IN THE late 1950s Chancellor Konrad Adenauer campaigned by reminding West German voters of their growing, but fragile, prosperity. “No experiments!” was his slogan. Adenauer’s spirit is abroad once more as Germany, united now and infinitely more self-assured, prepares for a national poll in September with a startling lack of audacity.

To German eyes, the reason to be steady is as plain as the badge on a Mercedes-Benz. The country has had a pretty good crisis. GDP has lurched sickeningly downward, but employment has not. Germany’s economic machine is made of honest iron and steel, not subprime mortgages, collateralised debt obligations and other financial chicanery. Having been concocted in Wall Street and the City of London, the crisis, it is said, has proved the merit of Germany’s solid social-market economy. Indeed, today’s chancellor, Angela Merkel, wants September’s G20 summit in Pittsburgh—just days before the election—to approve a “sustainable” economic charter that enshrines the German approach to taming markets.

Ideological assertiveness makes a change for a country that spent much of the past 15 years debating how far it needed to copy Anglo-American capitalism. But, if you look more closely, the Bundesrepublik does not come out of the crisis quite so well. Just as America and Britain now have to grapple with better ways to regulate financial services, so Germany also faces hard questions, about the lopsided shape of its economy, the need for further painful change, and whether its political parties have the gumption to embrace reform.

Wirtschaftsblunder

It may seem unfair, but the reason to question Germany’s economy is the dominance of its exporters. Few can look at Germany’s champions without admiring them—not just the giant carmakers that have conquered the world through their engineering excellence, but the pencil-makers, machine-tool designers, printing-press firms and countless other specialists that each lead their niche. Some German companies have been caught up in scandals, a sign perhaps that their corporate governance is not all that it is cracked up to be (see article). Most of them, however, mock the clichés used to deride European business. German exporters are innovators, tough on wages and flexible enough to get the job done. They have stayed competitive against all comers.

Yet Germany’s muscle-bound economy is also a victim of its exporters’ success. Global markets are

volatile: the country's current-account surplus has fallen by more than half from a mighty 8% of GDP in just a year. As the hard-earned surpluses piled up, they were invested in lower-quality foreign assets. Just ask the German banks that gave their money to those sharks on Wall Street, or the firms that splashed out on big acquisitions, like Chrysler. Germany seemed to forget that the point of exports is ultimately to pay for imports (see article).

But Germany prefers to save rather than spend. In the boom German consumers stayed at home. Last year consumer spending was only 56% of GDP compared with 70% in America. Puny demand was partly the result of small wage rises, but it was also because Germany's service sector is underdeveloped. This matters because, although Germany can still export to the rapidly industrialising (and rapidly growing) emerging economies, demand has faded in the far bigger markets in America and Europe. Germany needs to sell services at home to fill the gap.

Germans will tell you saving is a national obsession that reaches far back into their history. And they do not want more services—they hate getting in help to do the cleaning or put up shelves. Perhaps; but the dearth of spending and new service businesses is also caused by government policy. Germans struggle to create companies. Germany comes 102nd out of 181 countries recently surveyed as places to start businesses by the World Bank. Start-up capital is scarcer than it is elsewhere. There has been deregulation, to lengthen shopping hours and to coax the long-term unemployed back into work. But Germany remains bad at getting women and older people into jobs. Full-time posts are over-protected and generous welfare benefits act as a minimum wage. To cap it all, in 2007 the state squashed consumer demand by increasing value-added tax.

Instead of using the crisis to promote services at home, the coalition of the Social Democratic Party (SPD) and Ms Merkel's Christian Democrats has fallen back into bad old habits and used policy to prop up exporters. Germany has 1.4m workers in job-saving schemes which are supposed to tide people over until export demand picks up. It makes sense to preserve skills, but, since export demand will not fully recover, many of these people will end up unemployed. Realising this, perhaps, the SPD this week proposed a "Silicon Valley of environmentally friendly industrial production"—another export-boosting plan. Moreover, this one will happen only if Germany can create and commercialise valuable university research and learn to incubate high-technology start-ups. Young Germans thinking about starting a high-tech business today prefer to go to the real Silicon Valley.

Time to experiment

The next government's main job will be to sort all this out. Yet politicians seem loth even to talk about it. This is partly because German politics is fragmenting and the centre parties are on the defensive (see article). But it is also because voters rejected free-market programmes earlier this decade. In 2005 they punished the SPD for its reforms and, in the general election, Ms Merkel herself for even talking about a radical path.

Yet isn't politics supposed to be all about the art of persuasion? In the past decade German firms, unions and politicians have set about making their export economy competitive, with spectacular results. Now the country needs to gear up the domestic economy. Politicians often protest that services are for dodgy financiers or downtrodden burger-flippers and that Germany deserves better. As September's vote draws near, they should think again, if only for the sake of millions of their underemployed compatriots. It is time to experiment.

Britain's energy crisis

How long till the lights go out?

Aug 6th 2009
From The Economist print edition

Thanks to its posturing politicians, Britain will soon start to run out of electricity. What should it do?

Derek Bacon

IN THE frigid opening days of 2009, Britain's electricity demand peaked at 59 gigawatts (GW). Just over 45% of that came from power plants fuelled by gas from the North Sea. A further 35% or so came from coal, less than 15% from nuclear power and the rest from a hotch-potch of other sources. By 2015, assuming that modest economic growth resumes, a reasonable guess is that Britain will need around 64GW to cope with similar conditions. Where will that come from?

North Sea gas has served Britain well, but supply peaked in 1999. Since then the flow has fallen by half; by 2015 it will have dropped by two-thirds. By 2015 four of Britain's ten nuclear stations will have shut and no new ones could be ready for years after that. As for coal, it is fiendishly dirty: Britain will be breaking just about every green promise it has ever made if it is using anything like as much as it does today. Renewable energy sources will help, but even if the wind and waves can be harnessed (and Britain has plenty of both), these on-off forces cannot easily replace more predictable gas, nuclear and coal power. There will be a shortfall—perhaps of as much as 20GW—which, if nothing radical is done, will have to be met from imported gas. A large chunk of it may come from Vladimir Putin's deeply unreliable and corrupt Russia.

Many of Britain's neighbours may find this rather amusing. Britain, the only big west European country that could have joined the oil producers' club OPEC, the country that used to lecture the world about energy liberalisation, is heading towards South African-style power cuts, with homes and factories plunged intermittently into third-world darkness.

In terms of energy policy, this is almost criminal—as bad as any other planning failure in New Labour's 12-year reign (though the opposition Tories are hardly brimming with ideas). British politicians, after all, have had 30 years to prepare for the day when the hydrocarbons beneath the North Sea run out; it is hardly a national secret that the country's nuclear plants are old and its coal-power stations filthy. Recession has only delayed the looming energy crunch (see article). How did Britain end up in this mess?

A free energy market needs more than one country

To the extent that successive governments had a strategy, it was on the face of it an attractive one: they

believed in open energy markets. Beginning in 1990, the state divested itself of control of the energy industry. Power plants were privatised and a competitive internal electricity market was set up. Whereas most continental power providers, often state-backed, tied in supplies through long-term contracts (notably with Russia), British firms happily tapped the North Sea and planned to top up as necessary on the open market. This approach for the most part kept consumer prices down, but practical problems have long been clear.

Most obviously, the rest of Europe (wrongly) failed to liberalise wholeheartedly too. The market is thus a highly imperfect one: Britain was unable to buy gas at any price in 2004 and 2005, for example. Meanwhile, without any clear guidance from the government, Britain's electricity providers have had little incentive to start adding the sort of capacity that would help the system as a whole function more robustly—let alone diversify the sources. Tony Blair spent most of his prime ministership running around the issue of nuclear power (at the last minute deciding it was all right). Asked about energy, Gordon Brown has tended to waffle on about his (unfulfilled) ambitions for renewable energy. Nobody has been willing to discuss pipelines, terminals and power generation.

To make matters worse, the new capacity that is in the works is probably the wrong sort. With no official energy policy, the power firms look sure to go for the easiest option—building more gas plants, which are cheap, relatively clean and quick to build. Britain's dependence on gas for its electricity seems set to rise from just under half to three-quarters in a decade. Even if this new dash for gas happens fast enough to keep most of the lights on, which is by no means certain, it would leave the country overly reliant on one power source.

Electricity prices in Britain would be tied directly to gas prices, which can fluctuate wildly. Although many sources of gas are already bound up in long-term contracts, optimists think Britain might be able to get more of it fairly easily. Norway's North Sea reserves have life in them yet. New technology to capture gas from coalfields has recently boosted supplies, which could help keep prices down. But those sources are unlikely to meet all the extra demand, leaving Britain in a position familiar to many of its neighbours: relying on Russia. It is not just that relations with Russia are at their worst since the cold war; Mr Putin's crew seem more interested in terrorising their customers than developing new gasfields.

Brown out; then come the brownouts

With gas too risky, coal too dirty, nuclear too slow and renewables too unreliable, Britain is in a bind. What can it do to get out of it? At this stage, there is no lightning-bolt solution, but two things would prevent matters from getting worse.

The first has to do with infrastructure. Companies must be cajoled or bribed into building gas storage. At the moment there is barely a week's worth, so there is nothing to lessen the impact of price rises and the shenanigans of foreign powers. More cross-Channel power cables would help, allowing Britain to import electricity directly from its better-supplied neighbours (and also helping create a Europe-wide power grid, thus improving security for all EU members).

Second, carbon must be taxed if firms are to invest in long-term, expensive, technology-heavy projects such as nuclear plants, cleaning up coal and taming renewable sources of power. Carbon is already assigned a price through the European cap-and-trade mechanism, but the system is focused on the short term, vulnerable to gaming and plagued by hugely fluctuating prices. A tax on carbon is hardly going to stop the lights going out in a few years, but it would provide a floor price for power, giving investors a clearer sense of likely profits. In the meantime you know who to blame.

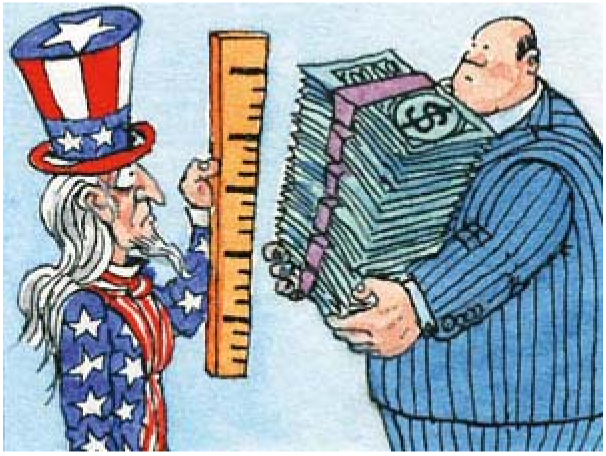
Regulating executive compensation

Pay and politics

Aug 6th 2009
From The Economist print edition

So far, Congress is taking a surprisingly sensible approach to the problem of pay

Illustration by David Simonds



THE boardrooms of America were ready for misery. What else could result from Congress's fury at runaway executive pay, outrageous Wall Street bonuses and handsome rewards for failure? The bosses can breathe a little more easily. The Corporate and Financial Institution Compensation Fairness Bill that won a healthy majority in the House of Representatives on July 31st turned out to be remarkably restrained—in some ways even too restrained (see article). However, with the Senate still to look at the legislation and the practical details of its implementation to be hammered out, there is plenty of time for that to change, for better or worse.

Despite the usual complaints about government heavy-handedness from Republicans and business lobbyists, the House bill contains none of the expected attempts to impose detailed limits on the size or structure of pay that would merit such alarm. Instead, as Barney Frank, the chairman of the House financial-services committee, puts it, "The question of compensation amounts will now be in the hands of shareholders and the question of systemic risk will be in the hands of the government." This division of labour is right in principle. The difficult bit will be making it work in practice.

The shareholder part of the bill is fairly straightforward: shareholders will have the right to vote each year on the compensation packages and any golden parachutes of senior executives. Critics say this may allow what ought to be business decisions to become politicised, as activist shareholders—notably union pension funds—make mischief. But the experience in Britain, where shareholders have had exactly the same "say on pay" that the House voted for, suggests the opposite danger: that shareholders will rarely vote against a pay package and that when they do their vote, being merely advisory, will be ignored by management, as the board of Royal Dutch Shell did in May. Perhaps the vote, on both sides of the Atlantic, should be made binding. Even that would make little difference unless ways can be found to persuade institutional shareholders to vote for pay packages that serve their long-term interests.

The problem with financial pay

The other prong of the new legislation has the greater potential to go wrong. As defined, it is hard to quibble with. It gives financial regulators the right to obtain information about the incentive structure of pay in financial institutions, and to opine on whether that structure poses a risk to the stability of the financial system. Fair enough. After all, banks are different from other sorts of companies. And it seems pretty clear that badly designed pay arrangements contributed to the financial crisis: bankers, brokers and traders were rewarded handsomely for doing risky deals without being financially exposed if the

deals went wrong.

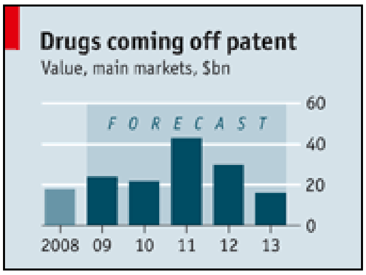
But there are dangers. Systemic risk is due to be considered separately after the summer recess. Pay rightly should be part of that discussion: banks with risky pay structures need more capital than thriftier ones. But the systemic regulator will surely come under pressure to rule on specific individuals' salaries for political reasons (ie, because the public thinks a bonus is outrageously big, not because it is endangering the system). As the "special master" appointed by Barack Obama to rule on pay in firms receiving government bail-out money is discovering, this is a hopeless task. The inconvenient truth is that banking will pay its best performers the sort of sums that outrage the public. The House bill makes it clear that it does not want the systemic-risk regulator to rule on the amounts of pay, only the way incentives are structured. Good. Now it is time to see if the Senate will be as wise.

Generic drugs and competition

Something rotten

Aug 6th 2009
From The Economist print edition

Regulators should put a stop to tactics that delay the introduction of generic drugs



AS THE rich world's governments struggle to contain the costs of health care, they are starting to scrutinise the price of drugs. This may seem unfair, when pharmaceuticals account for less than a fifth of their countries' health-care costs, and misguided, because innovation will wither if not rewarded. However, a noisy chorus argues that the drug industry is making the prices of its products needlessly high by suppressing cheap generics. Governments from Canada to Japan are looking into this. And, in this case at least, the critics are on to something.

The most egregious offence is the "pay-for-delay" deal, under which a patent-holder pays a maker of generic drugs to delay its launch of a cheap copy. America's Justice Department has called such deals "presumptively unlawful" and has vowed to prosecute them with vigour. The Federal Trade Commission estimates they cost Americans $3.5 billion a year.

American officials are examining other tactics. One is a law intended to encourage generics that grants the first copy of a patented drug to win regulatory approval in America a six-month monopoly. Often, however, the first generic does not have a free run, because patent-owners have taken to selling "authorised" generic versions of branded pills. The big drug firms point out that authorised generics drive down the price of copies. Fine; but they also erode the value of the six-month prize and hence generics firms' incentive to win it.

Regulators in the European Union are also concerned. The European Commission calculates that generic drugs arrive seven months after the relevant patent expires—a delay it says costs consumers more than €3 billion ($4.3 billion) a year. Competition authorities have pointed disapprovingly not only at pay-for-delay deals, but at other tactics used by big drug firms, including the filing of hundreds of patents on just one drug to thwart potential generic rivals. Neelie Kroes, the EU competition commissioner, has declared that "something is rotten" in the industry.

A pill for your thoughts

The big drugmakers have two responses: first, that the story is more complicated than antitrust officials claim; and second, that pay-for-delay deals in fact benefit consumers. Well, yes, the whole truth is complicated. It's not all the big drugmakers' fault. But on the second point, the industry is dead wrong.

In the EU, generics have been delayed by red tape. Unlike America, Europe is a patchwork of smallish markets with varying regulatory and economic barriers to entry, including a requirement to register new drugs in each EU country. Evidence suggests that a unified European patent and litigation procedure, a longstanding wish of innovative companies, would give generics a boost. Generics firms often seek to gain entry by challenging existing patents rather than by waiting for them to expire. A single patent, and hence a single challenge, would make that easier.

In America generics firms should also take some blame. They are happy to be paid for delays. They also claim that these deals help consumers, by reducing legal uncertainties and hence the time it takes to bring generics to market.

Phooey—as the latest deals between drugmakers show. Some generics firms are now agreeing to delay their launches not for cash but for a promise from the patent-holder to delay or cancel the launch of its authorised generic. Such machinations may suit brand-owners and generics makers whose old enmity is fading in other ways too (see article). But they do little good for consumers' physical or financial health.

Islam and heresy

Where freedom is still at stake

Aug 6th 2009
From The Economist print edition

Wanted: Islam's Voltaire

Corbis

TO MOST Western ears, the very idea of punishing heresy conjures up a time four or five centuries ago, when Spanish inquisitors terrorised dissenters with the rack and Russian tsars would burn alive whole communities of ultra-traditionalist Old Believers. Most religions began as heresies. Today the concept of "heresy" still means something. Every community built around an idea, a principle or an aim (from fox-hunting enthusiasts to Freudian psychotherapists) will always face hard arguments about where the boundaries of that community lie, and how far the meaning of its founding axioms can be stretched. But one of the hallmarks of a civilised and tolerant society is that arguments within freely constituted groups, religious or otherwise, unfold peacefully. And if those disputes lead to splits and new groups, that too must be a peaceful process, free of violence or coercion.

How depressing, then, to find that in the heartland of one of the world's great religions, Islam, charges of heresy are still being bandied about in a violent and threatening way, in the hope of silencing critical voices. The latest figure to face such an accusation is an Egyptian scholar, Sayed al-Qimani, whose profile has risen since he agreed to accept a prize from his country's semi-secular cultural authorities (see article). Mr Qimani's work—which would be unremarkable in any Western context—applies the familiar techniques of empirical research to early Islamic history.

As so often these days, he faces not punishment by his own government but the potentially lethal consequences of being denounced as a heretic by several influential groups in the quarrelsome world of Egyptian Islam. To the ears of a zealot, such a denunciation sounds like an invitation to go out and claim a heavenly reward by slaying the offender.

The deadly effects of heresy charges are only part of the broader problem of fundamentalist Islam's incompatibility with human rights. At its sternest, Islamic law prescribes the death penalty for anybody who commits "apostasy"—or abandons the faith. In its most obvious sense, that refers to people who openly convert to another religion. In many Muslim countries, law or social pressure makes such a choice almost impossible. That is a severe limit on religious freedom.

An insidious charge

But liberty is abused in an equally insidious way when accusers conflate apostasy with heresy—by alleging that somebody claiming to be a Muslim has erred by advancing false interpretations. This is

almost impossible for the “offender” to disprove. However strongly the accused may protest that he or she remains loyal to Islam, the accusers can still find some ground on which to prove guilt.

So who will speak up for Mr Qimani and similar outcasts? Statements in his defence would carry huge weight if they came from prominent Muslim figures, especially those who happened to disagree with his ideas on Islamic history.

Perhaps people living in the repressive atmosphere that prevails in much of the Islamic world can be forgiven if their courage falters. But what of the Muslim diaspora? So far, just a handful of Muslims living in the West have spoken out unequivocally for the rights of coreligionists with dissonant views to live in safety (see article). There should be more of them. Indeed, there is an opportunity here for somebody. It turns out the French thinker Voltaire probably never uttered the words so often ascribed to him: “I do not agree with what you have to say, but I’ll defend to the death your right to say it.” So the way is clear. Let some Western Muslim sage be the first philosopher to make that pronouncement, and mean it.

On economics, gambling, Ecuador and Colombia, American politics

Aug 6th 2009
From The Economist print edition

Economic reasoning

SIR – We read your briefing on the state of economics ("The other-worldly philosophers", July 18th). Our view is that the current economic calamity arises not so much from problems within our discipline as from the slavish devotion accorded it by outsiders. For example, in America it was argued that government was the source of our economic problems and that robust markets were sufficient to achieve economic goals. What has become abundantly clear is that this position is false.

Markets do not inevitably self-correct and we cannot always rely on enlightened self-interest to provide economic prosperity. Markets may require "adult supervision". The insights of our discipline were oversold by those pursuing their own objectives; qualifications and cautionary statements were ignored.

William Comanor
Professor of economics
University of California, Santa Barbara
Takahiro Miyao
Emeritus professor of economics
University of Tsukuba, Japan

SIR – When I was a student we studied business cycles, but the topic disappeared with the rise of mathematical equilibrium theorising. The idea that capitalism is an equilibrium system is common among Keynesian and neoclassical economists; they only differ as to whether the equilibrium is at full employment or under employment. The grand synthesis being taught makes the equilibrium stochastic and dynamic, but that is all.

Capitalism is, however, a disequilibrium dynamic stochastic system as Marx, Wicksell, Schumpeter and Hayek have told us over the past two centuries. Richard Goodwin tried his best to present a mathematical theory of such a disequilibrium system. After this crisis we need to revive that tradition if we are not to be surprised by another crisis.

Professor Meghnad Desai
House of Lords
London

SIR – The belief that working economies could be precisely represented by very abstract and simple models should have worried any liberal economist. Only a kind of religious faith in the ability of the human mind to represent the fabric of society mathematically could have led to such confidence in these models. Any economist who has read Hayek, and other conservative thinkers before him, knows that economies, as society at large, are much too complex. Macroeconomists should take models for what they are: simplified views of the world that help us think about a complex issue, but are not true representations of the complexity itself.

Jean-Luc Demeulemeester
Professor of economics
Université Libre de Bruxelles
Claude Diebolt
Research director in economics
Université de Strasbourg

SIR – The discipline of "institutional economics" holds that the more complex a market becomes, the more it is beset with transaction costs, information asymmetries, moral hazard, opportunism, and even predatory behaviour. This leads to short-term perspectives and excessive risks, all of which have disequilibrating consequences that can lead to market collapse. The solutions are therefore to be found in

formal (and informal) rules and regulations to control or eliminate perverse incentives in the market place, and in the governance structures of financial corporations. In this respect, while current policy initiatives are broadly correct, inadequate attention is being given to changing the formal rules and framework for corporate governance.

Ashok Chakravarti
Senior visiting lecturer
University of Zimbabwe
Harare

SIR – John Maynard Keynes was the most important of the founders of macroeconomics, though, as you implied without quite saying, he never used the term. You said that "the word did not appear in the journals until 1945, in an article by Jacob Marschak." However, Jan Tinbergen, a Nobel prize-winning Dutch economist, used "*macroéconomique*" in a French journal in 1936 and J.M. Fleming, an English economist, used "macro-economic" in the *Economic Journal* in 1938. Neither is the original source.

They almost certainly learned it from Ragnar Frisch, a Norwegian economist, who with Tinbergen shared the first Nobel prize in economics in 1969. In a *Festschrift* in honour of Gustav Cassel in 1933, Frisch wielded the term "macrodynamic" in a sense indistinguishable from macroeconomic and used the Norwegian equivalent of macroeconomics in lectures around the same time. Frisch was a great coiner of technical terms, also giving us "econometrics".

Kevin Hoover
Professor of economics and philosophy
Duke University
Durham, North Carolina

SIR – I was surprised that you did not mention the Austrian school of thought. Economists trained in the Austrian framework recognised early on that the recent boom was induced by rampant credit and money creation rather than sustainable economic growth, and correctly predicted the inevitable bust. Why spend so much time focusing on the economists who got it wrong while ignoring those who got it right?

Rich Toscano
San Diego

SIR – Your analysis of the efficient-markets hypothesis (EMH) did not recognise the importance of distortions caused by public policy ("Efficiency and beyond", July 18th). Government policies often provide incentives to market participants to act contrary to the EMH. Tax laws, specifically those which encourage leverage while discouraging the accumulation of equity capital on balance-sheets, are perhaps the greatest deterrent to its effective operation.

Other government policies that have distorted financial markets, thereby undermining the EMH, include shielding credit-rating agencies from lawsuits, government-sanctioned fair-value accounting rules, enforcing credit-default swaps where there is no insurable interest, mispriced deposit insurance, government-sponsored enterprises, and the over-promotion of home ownership. Minimising these distortions is key to making the EMH an everyday reality.

Bert Ely
Alexandria, Virginia

SIR – Some banks paid up to $160m to senior executives just to get rid of them after shares collapsed and investors wised up. The economic collapse side-by-side with these obscene payments are evidence enough that the EMH is dead.

Paul Hallwood
Lyme, Connecticut

SIR – When I considered taking a degree in economics almost 50 years ago, I was told that the exam questions would be the same from year to year, but that the correct answers would differ each year.

I decided instead to become an engineer.

Tony Hays
San Clemente, California

SIR – Having used my PhD in economics as a stepping stone to the more reputable field of stand-up comedy, it would be easy for me to spend all my time mocking macroeconomists. Consider, for example, that the current head of the Congressional Budget Office co-wrote a paper a few years back titled “Can Financial Innovation Help to Explain the Reduced Volatility of Economic Activity?”.

Yoram Bauman
Seattle

Betting in Europe

* SIR – Your article on gambling markets accurately identified the long-standing discrimination by several countries in the European Union against private betting-operators (“A stacked deck”, July 18th). As you said, this discrimination often flies in the face of both the European Court of Justice’s judgments and the European Commission’s own assessment.

Your reference to the closing of our shops in Greece by the local authorities is a striking example of this untenable situation. Both our intermediaries and customers were arrested shortly after opening for business, despite an explicit reasoned opinion by the European Commission warning of the incompatibility of the Greek restrictions with EU law. This behaviour has been denounced by the European Parliament, which asked the commission to investigate.

The situation is replicated in other EU member states, such as Germany where the Interstate Treaty on Gambling was expressly condemned by the commission. How much longer can member states openly ignore the rules of the internal market that they signed up to when it does not suit their national vested interests? Surely the time has now come for commissioners to put aside their national allegiances and have the courage to enforce the clearly defined rules without partiality or prejudice. A well-regulated and competitive sports betting market is in everybody's interest.

Adrian Morris
Deputy managing director
Stanleybet International
London

Ecuador

* SIR – Regarding your article on Colombia’s FARC guerrillas, the government of Ecuador is confident that President Rafael Correa’s election campaign received no funds from the rebels (“From the guerrilla’s mouth”, July 25th). Beyond that, we have no new information about the outrageous allegations stemming from a video leaked to reporters by the Colombian government, in which the FARC claims they made contributions.

The government of President Correa is not tolerant of the FARC. Only last year the Ecuadorean military destroyed over 130 FARC facilities and arrested 20 FARC members, as noted in the American State Department’s “Country Reports on Terrorism” issued in April. The report also notes that “the presence of Colombian narcotics and insurgent/terrorist groups in the northern border region” poses a continuing security challenge for Ecuador. The State Department’s separate international narcotics control report notes that President Correa has given “a clear indication that anti-narcotics (activities) would be a high priority for his administration.”

Colombia’s failure and neglect to control its border, allowing drug dealers and irregular groups (composed of guerrillas, paramilitaries and common delinquents) to cross the border toward Ecuador, affects my people and my country. Furthermore, the displacement of terrified Colombian refugees to Ecuador adds a humanitarian face that Colombia is unwilling to confront and constitutes a major refugee disaster in the region. The video issue is a diversion from the real problem of billions of dollars in cocaine that comes from Colombia. We are not the problem, they are.

Luis Gallegos

Ambassador of Ecuador to the United States
Washington, DC

Presidential promises

* SIR – Lexington was right that American presidential candidates set themselves up for failure because they promise more than they can reasonably deliver (July 25th). Of all the men who have held the office of president of, I think James Knox Polk was the best at following through on his campaign promises. The hard-faced, antagonistic, begrudging Polk took office in 1845 with firm ambitions to lower tariffs, remove federal deposits from private banks, settle the dispute with Britain over the Oregon territory, and, supremely, to gain California.

A staunch western expansionist, Polk's efforts extended America's boundary to the Pacific Ocean. His four-year term also delivered on his campaign promises to re-establish an independent federal Treasury and create the Department of the Interior. He urged a treaty granting the United States right-of-way across the Panama isthmus, and Texas, Iowa, and Wisconsin joined the union.

Polk died three months after leaving office. An oft-forgotten leader, he put promises before politics. Polk illustrates perfectly that acting on a handful of objectives goes a long way, and that a real leader never comes in the form of a man on a white horse.

Lee Igel
New York

* SIR – I was disappointed to see you give credence to the notion that Barack Obama is trying to ram his agenda through Congress "so fast that lawmakers do not have time to read the bills before voting on them." Legislators have aides and bills have summaries for a reason. Do you really think that most congressmen would read the 1,000-plus pages of tedious amendments to the United States Code that constitute health-care reform? Legislative bodies throughout the world routinely enact legislation that they haven't read completely.

Tyler Rosenbaum
Federal Way, Washington

* SIR – Lexington warns that if Mr Obama disappoints his supporters they will have only themselves to blame. Does the media bear no responsibility? It was the media that foisted Mr Obama on an unsuspecting public and proceeded to fashion him in their own image. The media, including *The Economist*, fathered the Obama cult; will they now deny their paternity?

Paul McGregor
Moreton, Merseyside

Robert Lucas, a professor of economics at the University of Chicago, also responds to our leader and briefing in this week's Economics focus.

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* Letter appears online only

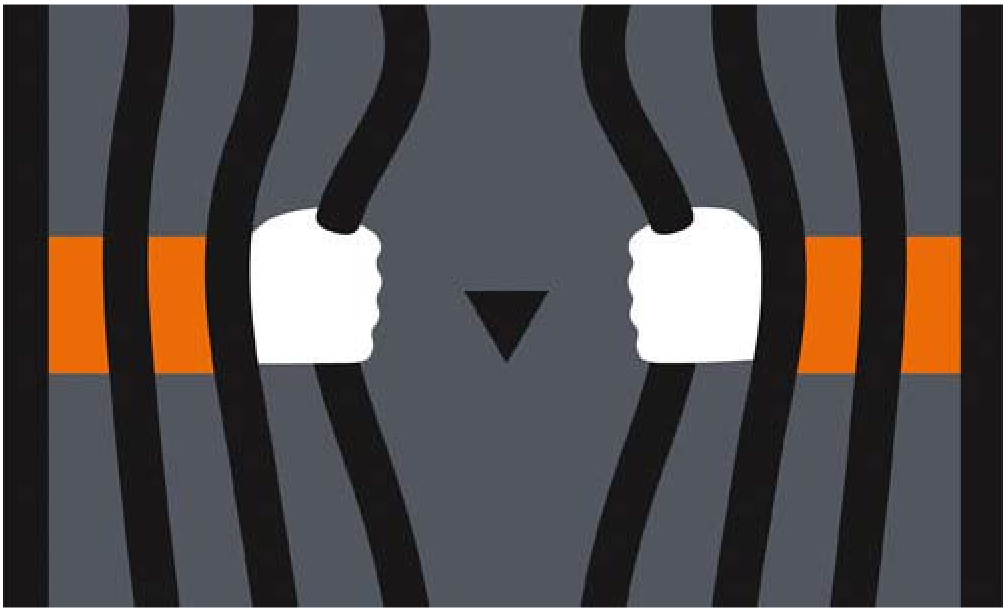
Sex laws

Unjust and ineffective

Aug 6th 2009 | HARLEM, GEORGIA
From The Economist print edition

America has pioneered the harsh punishment of sex offenders. Does it work?

Illustration by Noma Barr



ONE day in 1996 the lights went off in a classroom in Georgia so that the students could watch a video. Wendy Whitaker, a 17-year-old pupil at the time, was sitting near the back. The boy next to her suggested that, since it was dark, she could perform oral sex on him without anyone noticing. She obliged. And that single teenage fumble wrecked her life.

Her classmate was three weeks shy of his 16th birthday. That made Ms Whitaker a criminal. She was arrested and charged with sodomy, which in Georgia can refer to oral sex. She met her court-appointed lawyer five minutes before the hearing. He told her to plead guilty. She did not really understand what was going on, so she did as she was told.

She was sentenced to five years on probation. Not being the most organised of people, she failed to meet all the conditions, such as checking in regularly with her probation officer. For a series of technical violations, she was incarcerated for more than a year, in the county jail, the state women's prison and a boot camp. "I was in there with people who killed people. It's crazy," she says.

She finished her probation in 2002. But her ordeal continues. Georgia puts sex offenders on a public registry. Ms Whitaker's name, photograph and address are easily accessible online, along with the information that she was convicted of "sodomy". The website does not explain what she actually did. But since it describes itself as a list of people who have "been convicted of a criminal offence against a victim who is a minor or any dangerous sexual offence", it makes it sound as if she did something terrible to a helpless child. She sees people whispering, and parents pulling their children indoors when she walks by.

Punish first, think later

The registry is a gold mine for lazy journalists. A local television station featured Ms Whitaker in a spot on local sex offenders, broadcasting a helpful map showing where she lives but leaving the specifics of the crime to each viewer's fearful imagination. "My husband's family saw me on TV," she says. "That's embarrassing."

What Ms Whitaker did is no longer a crime in Georgia. The state's sodomy laws, which in 1996 barred oral sex even between willing spouses, were struck down by court rulings in 1998 and 2003. And since 2006, thanks to a "Romeo and Juliet" clause in a sex-crimes law, consensual sex between two teenagers has been a misdemeanour, not a crime, if one partner is underage but no more than four years younger than the other.

The Romeo and Juliet clause was not retroactive, however, so Ms Whitaker is stuck on the register, and subject to extraordinary restrictions. Registered sex offenders in Georgia are barred from living within 1,000 feet of anywhere children may congregate, such as a school, a park, a library, or a swimming pool. They are also banned from working within 1,000 feet of a school or a child-care centre. Since the church at the end of Ms Whitaker's street houses a child-care centre, she was evicted from her home. Her husband, who worked for the county dog-catching department, moved with her, lost his job and with it their health insurance.

Thanks to a lawsuit filed by the Southern Centre for Human Rights, a group that campaigns against rough justice, Ms Whitaker won an injunction allowing her to return home. But her husband did not get his job back, and now works as a labourer. The two of them are struggling financially. And Ms Whitaker is still fighting to get her name removed from the registry. "When you're a teenager, you do stuff," she says. "You don't think you'll be paying for it when you're nearly 30."

Every American state keeps a register of sex offenders. California has had one since 1947, but most states started theirs in the 1990s. Many people assume that anyone listed on a sex-offender registry must be a rapist or a child molester. But most states spread the net much more widely. A report by Sarah Tofte of Human Rights Watch, a pressure group, found that at least five states required men to register if they were caught visiting prostitutes. At least 13 required it for urinating in public (in two of which, only if a child was present). No fewer than 29 states required registration for teenagers who had consensual sex with another teenager. And 32 states registered flashers and streakers.

Because so many offences require registration, the number of registered sex offenders in America has exploded. As of December last year, there were 674,000 of them, according to the National Centre for Missing and Exploited Children. If they were all crammed into a single state, it would be more populous than Wyoming, Vermont or North Dakota. As a share of its population, America registers more than four times as many people as Britain, which is unusually harsh on sex offenders. America's registers keep swelling, not least because in 17 states, registration is for life.

Georgia has more than 17,000 registered sex offenders. Some are highly dangerous. But many are not. And it is fiendishly hard for anyone browsing the registry to tell the one from the other. The Georgia Sex Offender Registration Review Board, an official body, assessed a sample of offenders on the registry last year and concluded that 65% of them posed little threat. Another 30% were potentially threatening, and 5% were clearly dangerous. The board recommended that the first group be allowed to live and work wherever they liked. The second group could reasonably be barred from living or working in certain places, said the board, and the third group should be subject to tight restrictions and a lifetime of monitoring. A very small number "just over 100" are classified as "predators", which means they have a compulsion to commit sex offences. When not in jail, predators must wear ankle bracelets that track where they are.

Illustration by Noma Barr

Despite the board's findings, non-violent offenders remain listed and subject to a giant cobweb of controls. One rule, championed by Georgia's House majority leader, banned them from living within 1,000 feet of a school bus stop. This proved unworkable. Thomas Brown, the sheriff of DeKalb county near Atlanta, mapped the bus stops in his patch and realised that he would have to evict all 490 of the sex offenders living there. Other than the bottom of a lake or the middle of a forest, there was hardly anywhere in Georgia for them to live legally. In the end Georgia's courts stepped in and suspended the bus-stop rule, along with another barring sex offenders from volunteering in churches. But most other restrictions remain.

Sex-offender registries are popular. Rape and child molestation are terrible crimes that can traumatise their victims for life. All parents want to protect their children from sexual predators, so politicians can nearly always win votes by promising curbs on them. Those who object can be called soft on child-molesters, a label most politicians would rather avoid. This creates a ratchet effect. Every lawmaker who wants to sound tough on sex offenders has to propose a law tougher than the one enacted by the last

politician who wanted to sound tough on sex offenders.

A self-defeating pillory

So laws get harsher and harsher. But that does not necessarily mean they get better. If there are thousands of offenders on a registry, it is harder to keep track of the most dangerous ones. Budgets are tight. Georgia's sheriffs complain that they have been given no extra money or manpower to help them keep the huge and swelling sex-offenders' registry up to date or to police its confusing mass of rules. Terry Norris of the Georgia Sheriffs' Association cites a man who was convicted of statutory rape two decades ago for having consensual sex with his high-school sweetheart, to whom he is now married. "It doesn't make it right, but it doesn't make him a threat to anybody," says Mr Norris. "We spend the same amount of time on that guy as on someone who's done something heinous."

Money spent on evicting sex offenders cannot be spent on treating them. Does this matter? Politicians pushing the get-tough approach sometimes claim that sex offenders are mostly incorrigible: that three-quarters or even nine out of ten of them reoffend. It is not clear where they find such numbers. A study of nearly 10,000 male sex offenders in 15 American states found that 5% were rearrested for a sex crime within three years. A meta-analysis of 29,000 sex offenders in Canada, Britain and America found that 24% had reoffended after 15 years.

That is obviously still too high. Whether or not treatment can help is disputed. A Californian study of sex offenders who underwent "relapse prevention", counselling of the sort that alcoholics get from Alcoholics Anonymous, found that it was useless. But a meta-analysis of 23 studies by Karl Hanson of Canada's department of public safety found that psychological therapy was associated with a 43% drop in recidivism. Some offenders—particularly men who rape boys—are extremely hard to treat. Some will never change until they are too old to feel sexual urges. But some types of treatment appear to work for some people and further research could yield more breakthroughs.

Publicising sex offenders' addresses makes them vulnerable to vigilantism. In April 2006, for example, a vigilante shot and killed two sex offenders in Maine after finding their addresses on the registry. One of the victims had been convicted of having consensual sex with his 15-year-old girlfriend when he was 19. In Washington state in 2005 a man posed as an FBI agent to enter the home of two sex offenders, warning them that they were on a "hit list" on the internet. Then he killed them.

Murders of sex offenders are rare, but harassment is common. Most of the offenders interviewed for this article said they had experienced it. "Bill", who spent nine months in jail for having consensual sex with a 15-year-old when he was 27 and is now registered in North Carolina, says someone put up posters with his photograph on them around his district. (In at least four states, each offender's profile on the online registry comes with a handy "click to print" function.) The local kids promptly stopped playing with Bill's three children. And someone started leaving chopped-up sausages on his car, a possible reference to castration. Bill and his family moved house.

Jill Levenson, of Lynn University in Florida, says half of registered sex offenders have trouble finding jobs. From 20% to 40% say they have had to move house because a landlord or neighbour realised they were sex offenders. And most report feeling depressed, hopeless or afraid.

"Mike" spent a year and a half behind bars for statutory rape after having sex with a girl who said she was 17, but was two years younger. He was 22 at the time. Since his release, he has struggled to hold down a job. Once, he found work as a security guard, but his probation officer told him to quit, since the uniform lent him an air of authority, which would not do.

He is now unemployed, and lives in a flophouse in Atlanta between a jail and a strip club. The area is too desolate to have any schools or parks, so he is allowed to live there. His neighbours are mostly other sex offenders and mentally ill folk who talk to themselves. "It's Bumville," sighs Mike. His ambition is to get a job, keep it and move out. Any job will do, he says.

Several studies suggest that making it harder for sex offenders to find a home or a job makes them more likely to reoffend. Gwenda Willis and Randolph Grace of the University of Canterbury in New Zealand, for example, found that the lack of a place to live was "significantly related to sexual recidivism". Candace Kruttschnitt and Christopher Uggen of the University of Minnesota and Kelly Shelton of the Minnesota Department of Corrections tracked 556 sex offenders on probation and found less recidivism among those with a history of stable employment.

Some bosses do not mind hiring sex offenders, if they know the full story and the offender does not seem dangerous. But an accessible online registry makes it all but certain that a colleague or a customer will find out about a sexual conviction. Sex offenders often report being sacked for no apparent reason. Mike had a job at a cake shop. His boss knew about his record. But one day, without warning, he was fired.

Publicly accessible sex-offender registries are intended to keep people safe. But there is little evidence that they do. A study by Kristen Zgoba of the New Jersey Department of Corrections found that the state's system for registering sex offenders and warning their neighbours cost millions of dollars and had no discernible effect on the number of sex crimes. Restricting where sex offenders can live is supposed to keep them away from potential victims, but it is doubtful that this works. A determined predator can always catch a bus.

Laws that make life hard for sex offenders also affect their families. A survey by Ms Levenson found that 86% of family members felt stressed because of registration and residence rules, and 49% feared for their own safety. "It's very difficult," says Bill. "Pretty much all the things that make you a good father are now illegal for me to do." He cannot take his children to a park, a pool, or a museum. He cannot be at any of their school events. And his children are ostracised. "The parents find out I'm registered and that's it," he sighs.

The penalties for sex offenders who break the rules can be severe. In Georgia the first time you fail to provide an accurate address or register annually with the county sheriff to be photographed and fingerprinted, you face ten to 30 years in prison. The second time: life. Yet because living on a public sex-offender registry is so wretched, many abscond.

Some states have decided that harsher sex laws are not always better. Iowa has sharply reduced the number of sex offences for which residency restrictions apply. Previously, all Iowan sex offenders who had abused children were barred from living within 2,000 feet of a school or child-care centre. Since where offenders lived was defined as where they slept, many would spend the day at home with their families and sleep at night in their cars at a highway rest stop. "That made no sense," says Corwin Ritchie of the Iowa County Attorneys Association. "We don't try to monitor where possible bank robbers sleep."

The Iowan politicians who relaxed the law gave themselves cover by adding a new rule against "loitering" near schools. Mr Ritchie thinks the new rules are better, but he would rather get rid of the residency restrictions entirely and let probation officers make recommendations for each individual offender.

No quarter

Nationwide, the trend is to keep getting stricter. In 1994 Congress ordered all states that had not yet done so to set up sex-offender registries or lose some funding. Two years later it ordered them to register the most serious offenders for life. In 2006 it passed the Adam Walsh Act, named for a six-year-old boy who was kidnapped and beheaded, broadening the categories of offence for which registration is required and obliging all states to upload their registries to a national database. States had until this summer to comply with that provision. Some objected. In May they were given another year's breathing space.

Illustration by Noma Barr

Other countries now seem to be following America's lead. Hottest on its heels is Britain, where the sex-offenders' registry includes children as young as 11. The British list is not open to the public, but in some areas parents may ask for a check on anyone who has unsupervised access to their child. France, too, now has a closed national directory of sex-offenders, as does Austria, which brought in some American-style movement restrictions on sex offenders earlier this year. After the disappearance in Portugal in 2007 of Madeleine McCann, a British toddler, some European politicians have called for a pan-European registry.

Human Rights Watch urges America to scale back its sex-offender registries. Those convicted of minor, non-violent offences should not be required to register, says Ms Tofte. Nor should juveniles. Sex offenders should be individually assessed, and only those judged likely to rape someone or abuse a child should be registered. Such decisions should be regularly reviewed and offenders who are rehabilitated (or who grow too old to reoffend) should be removed from the registry. The information on sex-offender registries should be held by the police, not published online, says Ms Tofte, and released "on a need-to-know basis". Blanket bans on all sex offenders living and working in certain areas should be abolished. Instead, it makes sense for the most dangerous offenders sometimes to face tailored restrictions as a condition of parole.

That package of reforms would bring America in line with the strictest laws in other rich countries. But few politicians would have the courage to back it. "Jane", the mother of a sex offender in Georgia, says she sent a letter to her senator, Saxby Chambliss, urging such reforms. "They didn't even read it," she says. "They just sent me a form letter assuring me that they were in favour of every sex offender law, and that [Senator Chambliss] has grandchildren he wants to protect."

Signs of economic cheer

The sun also rises

Aug 6th 2009 | WASHINGTON, DC
From The Economist print edition

The economy may be pulling out of recession but unemployment is still surprisingly high. Celebrations should be delayed

Illustration by S. Kambayashi

WHEN Barack Obama visited Elkhart, Indiana, in early February, a few weeks after his inauguration, it was a sombre affair. In the previous 12 months the area's unemployment rate had more than tripled to 18.3 %. The president pleaded for the passage of a massive fiscal stimulus, insisting that "doing nothing is not an option." By the time he returned to Elkhart on August 5th he was quite a bit sunnier. Local factories are "coming back to life", he proclaimed. A few days earlier he had declared the economy to have done "measurably better" than expected.

Mr Obama's good spirits are well grounded: America's recession appears to be coming to an end. On July 31st the government reported that real gross domestic product (GDP) contracted in the second quarter, but at only a 1% annual rate. Much of that decline reflected business's determination to keep factories and workers idle and fill new orders out of existing inventory. Now, stocks are so depleted that production will soon have to restart.

The clutch of data now available for July has strengthened expectations that GDP will rise in the current quarter by as much as 3%. An index of manufacturing activity rose to its highest level since last August, and manufacturers reported that new orders were growing briskly, the best in over two years. Car sales jumped 15% to an annualised 11.2m and manufacturers are ramping up production. Sales of existing houses have risen. Even battered Elkhart got some good news: on August 4th Dometic, a supplier of recreational-vehicle parts, said that with some help from local incentives it would add 240 jobs to its operation in the town.

Mr Obama and his aides have wasted no time in crediting the $787 billion fiscal stimulus for spurring this recovery. In fact the stimulus's contribution so far has been relatively modest. More important was last autumn's massive injection of public capital, loans and loan guarantees into the financial system, and this spring's bank stress tests. These stopped the spiral of declining asset prices, credit withdrawals and bank

failures that had threatened to turn a recession into a depression.

One of the most encouraging bits of news is that the S&P/Case-Shiller 20-city index of house prices fell just 0.2% between April and May, the smallest fall in two years. Stable house prices would do wonders in reducing loan delinquencies, shoring up the banks' balance-sheets and restoring the flow of credit.

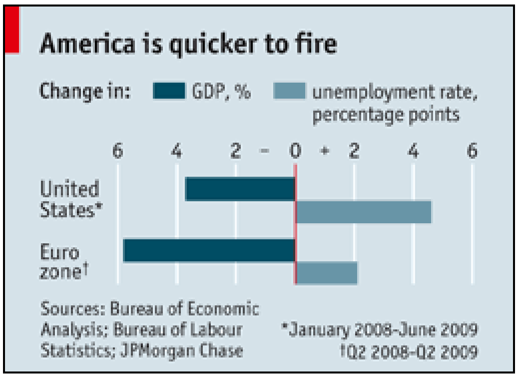
Despite the good news, Mr Obama's approval ratings, though high, are slipping. This, in part, is because the single most important economic benchmark, employment, remains grim, surprisingly so. Unemployment usually responds to economic growth in a relationship that was captured by an economist, Arthur Okun, in the 1960s. But it has risen more during this recession than most formulations of Okun's Law would suggest.

The publication last week of revisions to earlier GDP data explains some of the discrepancy. The revisions show that GDP has declined a cumulative 3.7% since the end of 2007, thus tying with 1957-58 as the deepest recession since the Depression (before these revisions, the decline was shown to be 2.5%). Even so, Michael Feroli, an economist at JPMorgan Chase, says that Okun's Law would have predicted an unemployment rate of just 8.6% during the second quarter, whereas it actually averaged 9.3%.

Several factors are at work. Expanded unemployment-insurance benefits encourage some workers to keep looking for a job rather than drop out of the workforce altogether, adding perhaps half a percentage point to the unemployment rate, according to the Fed. The evisceration of their wealth may have led people to look for work rather than retire or stay at home with the children.

And firms have been unusually quick to slash payrolls. Some may be husbanding cash more carefully because of the credit crunch. Others may simply be more pessimistic about an eventual recovery. Whatever the reason, one result is that productivity is rising, cushioning profit margins. Robert Hall of Stanford University, who heads the academic committee that dates recessions, says Okun devised his law in an era when productivity usually fell during recessions: "When productivity rises, the law fails. Though I was a great fan of Okun's, I'm afraid his law is obsolete."

The difference with Europe is especially striking. In the euro zone GDP has fallen further than in America but unemployment has risen less (see chart). Employers are slower to sack workers than in America, partly thanks to government subsidies that encourage them to shorten working hours instead (see article). This means that European unemployment will probably be slow to fall once GDP recovers.



But it looks as if it will be slow to come down in America as well. Firms are unlikely to do much hiring until growth seems durable, and so far it does not. Replenishing inventory will be a temporary fillip without an increase in consumer demand. Car sales have been strong in great part because of the federal cash-for-clunkers programme, which allows Americans to get up to $4,500 for their old car when they exchange it for a new one. The programme was supposed to run until November 1st but its $1 billion was snapped up within days of its start on July 24th. The House of Representatives has voted for an extra $2 billion and at mid-week the Senate was expected to do likewise. But cars bought now may mean fewer cars bought later.

If growth peters out again later this year, it will dash the expectations Mr Obama has done so much to raise by touting his stimulus. Dick Moore, Elkhart's mayor, has been so enthusiastic about federal support that some county officials harrumph that he sleeps in Obama pyjamas. Though the president obligingly promised $39m for a local unit of Navistar to make electric trucks, it will take time for the firm to scale up production and hire workers. Meanwhile, Dorinda Heiden-Guss, who heads the county's economic-development group, has been barraged with requests from companies seeking incentives. But many of them do so without a semblance of a business plan.

Another caveat: all numbers are subject to revision, perhaps years later. Even the Depression is getting worse. According to the latest revisions, GDP fell 26.7% between 1929 and 1933: the pre-revision figure was a mere 26.6%. Today's green shoots could still be revised away.

The growth of home-schooling

Kitchen-classroom conservatives

Aug 6th 2009 | ALBANY, GEORGIA
From The Economist print edition

Barack Obama could hasten the spread of educating children at home

Eyevine

Reading, writing and religion

THE first thing you notice about Karen Allen's house is that it is spotless. Even in her teenage boys' bedrooms, not a thing is out of place. And her boys, Thomas and Taylor, are polite and engaging. Your correspondent found himself being grilled about his travels by a boy who had clearly Googled him. In this household, every chance to learn something new is eagerly seized, explains Mrs Allen.

The Allens are home-schoolers. Instead of sending their children to a public (non-fee-paying) or private school, they teach them at home. They are far from alone. A generation ago, home-schooling was rare and, in many states, illegal. Now, according to the Department of Education, there are roughly 1.5m home-schooled students in America, a number that has doubled in a decade. That is about 3% of the school-age population. The National Home Education Research Institute puts the number even higher, at between 1.8m and 2.5m.

Why do people teach their children at home? Many of the earliest were hippies who thought public schools repressive and ungroovy. Now they are far more likely to be religious conservatives. At a public school, says Mrs Allen, her boys would get neither much individual attention nor any Christian instruction. At home they get plenty of both.

In a 2007 survey by the Department of Education, 88% of home-schooling parents said that their local public schools were unsafe, drug-ridden or unwholesome in some way. Some 73% complained of shoddy academic standards. And 83% said they wanted to instil religious or moral values in their children—a number that has risen from 72% in 2003.

Those who teach at home are passionate about it. They have to be: it is a huge undertaking. One parent, usually the mother, drops out of the workforce and devotes her life to teaching. The family must subsist on a single income while still paying the taxes that finance public schools. Home-schooling is not for the faint-hearted.

"It becomes a lifestyle," says Mrs Allen. She teaches her boys English, history and Bible studies. Maths comes on a DVD. When they go shopping, she teaches them economics. On holiday in Alaska, they made moulds of a wolf's pawprint, a "science adventure". Yet the Allens' science curriculum is one that no public school would allow. "We teach biology from a creationist perspective," she says.

Not all home-schoolers shun the public schools for religious reasons. Anne Mitchell, for example, pulled her son Gordon out because she did not like the way his school dealt with his cerebral palsy. Rather than helping him to do things himself, it assigned a helper to follow him around and do everything for him. A tenth of home-schooling parents say that one of their children has a physical or mental problem that the

local school cannot or will not accommodate. And some parents teach at home because their children are brilliant and public school fails to stretch them.

But there is no doubt that religion is the main force. American public schools are rigidly secular. Private schools are expensive. For parents who want their children to grow up relatively unexposed to doubt, Darwin or indecent lunchroom chatter, home-schooling offers hope. And one reason the movement is growing so quickly is that religious Americans tend to have a lot of children.

Consider the Millerds, a family of Mormons who live not far from the Allens in south-west Georgia. They have eight children. At one point, four were in public school. But when one had his head banged because other kids were fighting on a school bus and another came home “with a mouth full of trash” (figuratively speaking), Tirzah Millerd, their mother, decided to bring them home.

It was tough at first. Mrs Millerd had just had her seventh baby and her husband, a marine, was posted to the Horn of Africa. But after a while she got used to it. Now, she says she loves every minute. The older kids help coach the younger. There are lots of good textbooks and online tutorials. A local private school lets them use a chemistry lab. For sport, they play ping-pong or swim. And their father taught them carpentry when building the house.

Opponents of home-schooling—and some of them are vehement—argue that it is socially divisive. Also, since it is regulated lightly or not at all, it is hard to tell whether children being taught at home are receiving an adequate education. “Unregulated home-schooling opens up the possibility that children will never learn about…alternative ways of life,” writes Rob Reich of Stanford University.

But parents make no apology for shielding their children from what they see as bad influences. They hotly deny that children learn better social skills on a school playground than at home. The children your correspondent met in Georgia were confident, gregarious and socialised a lot, albeit mostly with families doing the same thing. They were also at ease with friends of different ages. Public-school kids, by contrast, live in an “age-segregated herd”, scoffs Michael Farris, the chancellor of Patrick Henry College, a Christian university in Virginia most of whose students were taught at home.

Whether teaching at home yields better or worse academic results than the conventional sort is impossible to say. Its boosters argue that one-on-one instruction helps children learn, and point to the striking number of home-schooled children who win debating contests and spelling bees. A study of 20,000 home-schooled students in 1998 by Lawrence Rudner of the University of Maryland found that they scored well above average in academic tests, and subsequent studies have found similar results. This is impressive, but does not prove that the method is superior. Parents who teach at home are deeply involved in their children’s education, and the children of such parents do well in normal schools, too.

Some states try to regulate home-schooling. Twenty-six require parents to provide regular test scores or professional evaluations of their children’s progress. Of these, six, concentrated in the north-east, require much more, such as the use of approved curriculums or home visits by bureaucrats. Fourteen states demand only that parents tell the authorities that they are home-schooling. And ten do not regulate it at all. Some children taught at home undoubtedly receive a poor education. But so do many children in public schools.

The movement will probably continue to grow. For one thing, it is getting easier. The internet lets parents discover teaching materials and communicate with each other, swapping tips online. They lobby vigorously against anything that might cramp their freedom. Moreover, having Barack Obama in the White House may cause more people to pull their children out of public schools, predicts Mr Farris. Views of the government are coloured by views of the president, he says, even though the president has little control over education. And Mr Obama is far too liberal for most of America’s home-schoolers.

Coney Island's redevelopment

On and off the boardwalk

Aug 6th 2009 | CONEY ISLAND, BROOKLYN
From The Economist print edition

A plan that may change the nature of the People’s Playground

CIDC

SIGNS for “Miss Olga Hess, the headless girl—how long can science keep her alive?” and “The kid with two bodies and one head” beckon the curious on Coney Island. Your correspondent paid $1 to gawk at the “Little Lady from Haiti, the world’s smallest woman”.

The cheap-thrill sideshows have an audience (though the queue for “Shoot the Freak—Live Human Target” was thankfully non-existent) but it is things like the Wonder Wheel, a landmarked Ferris wheel, and the Cyclone, an 82-year-old rickety, wooden rollercoaster, that draw enormous crowds. The main attraction is Coney Island’s famous boardwalk, packed on most summer days with strolling tourists and jogging locals. George Tilyou, a 19th-century developer, said “If Paris is France; Coney Island, between June and September, is the world.”

But the amusement area has steadily declined in acreage since its heyday. Empty lots and boarded-up shops are the norm. Unemployment is twice New York’s average. One in six of the people on Coney Island lives in public housing. Grocery stores are a rarity. In the 1960s, under the guise of urban renewal, the place became a dumping ground for the city’s poor.

Despite a newly renovated subway station, a refurbished beach and boardwalk, a popular annual Mermaid Day parade and a minor-league ballpark, it is still a shell of its former self. The iconic beach resort and surrounding neighbourhood are “underutilised, underdesigned and underserved,” says Robert Lieber, New York’s deputy mayor. But Coney Island, called at various times the People’s Playground, an electric Eden and Sodom by the Sea, is about to undergo a massive rebirth.

Michael Bloomberg, New York’s mayor, wants to make Coney Island a year-round destination. On July 29th the city council approved his rezoning plan, which devotes 27 acres (11 hectares) to amusements and entertainment (see artist’s impression above). The plan envisages hotels, retail outlets, new rollercoasters and 4,500 new units of housing. About 35% of the new houses will be devoted to low- and moderate-income families. The redevelopment is expected to create 25,000 construction jobs and 6,000 permanent jobs. City Hall predicts an economic impact of $14 billion over 30 years.

Many worry that the historic kitschy Coney Island character will be lost. Some, such as Charles Denson, a Coney Island historian, doubt that the needy will benefit much from the plan and fear that the height of the new hotels will destroy the atmosphere. Dick Zigun, of Coney Island USA, a non-profit group dedicated to preserving and revitalising the area, gives Mr Bloomberg’s plan no more than a C grade but is still hopeful it will make Coney Island “viable for the 21st century.”

There is no date set for the redevelopment to start. City Hall is still negotiating to buy land from Thor Equities, which owns much of the ground beneath the amusement parks. In the meantime there is something to look forward to: when your correspondent last glanced at the enormous clock on the wall of Nathan’s Famous hot-dog stand, there were 332 days, 17 hours, 26 minutes and 12.8 seconds until the next July 4th hot-dog eating contest.

California's universities in trouble

Before the fall

Aug 6th 2009 | LOS ANGELES
From The Economist print edition

California's financial crisis jeopardises one of the world's finest universities

Eyevine

Seed corn in peril at Berkeley

THE best public higher education in the world is to be found at the University of California (UC). This claim is backed up by Shanghai Jiao Tong University in China, which provides an authoritative ranking of research universities. The UC's campus at Berkeley ranks third behind two private universities, Harvard and Stanford. Several of the other ten UC sites, such as Los Angeles and San Diego, are not far behind. Californians are justifiably proud.

It is therefore no small matter that this glory may be about to end. "We are in irreversible decline," says Sandra Faber, a professor of astrophysics at UC Santa Cruz who has inadvertently become a mouthpiece for a fed-up faculty. University excellence, she says, "took decades to build. It takes a year to destroy it."

California has been suffering serial budget crises, the latest of which was resolved last month in a rather desperate deal between the governor, Arnold Schwarzenegger, and the legislature. It contained huge cuts, including $2 billion lopped from higher education. The UC alone has lost a cumulative $813m of state funding in the last fiscal year and the current one, a cut of 20%. The second-tier California State University (Cal State), with 23 campuses the largest in the country, and the third-tier community colleges have also been clobbered.

The cuts threaten the legacy of two visionaries, Edmund "Pat" Brown, governor from 1959 to 1967, and Clark Kerr, who was in charge of the UC during those years. Kerr envisioned the state's public universities as "bait to be dangled in front of industry, with drawing power greater than low taxes or cheap labour." In a 1960 master-plan he created the three-tiered system.

His ambition was simple. First, to educate as many young Californians as affordably as possible. The best students would go to the UC, the next lot to Cal State and the rest to community colleges with the possibility of trading up. Second, to attract academic superstars. Kerr went about this like a talent scout, and his successors have continued the practice. The UC campuses have collectively produced more Nobel laureates than any other university.

But the master-plan has been under strain for years. State spending per student in the UC system, adjusted for inflation, has fallen by 40% since 1990, says Mark Yudof, the current UC president. The Public Policy Institute of California, a non-partisan think-tank, projects that California's economy will face a shortfall of 1m college graduates by 2025, depressing the prosperity of the entire state. Public universities, which award 75% of all the state's bachelor degrees, will be largely responsible.

Academic excellence is likely to be the first victim. Both the UC and Cal State are planning to send professors and staff on leave, cram more students into classrooms and offer fewer courses. Attracting and keeping academic stars, and the research dollars that usually follow them, will become much harder.

It is already happening, says Ms Faber. She recently hired three world-class assistant professors whose salaries are now at risk. Other universities have begun to get in touch with them, she says, and they will probably leave. Their best students may go with them. "We are eating our seed corn," the professor laments.

Regulating cannabis in California

Puff, puff, pay

Aug 6th 2009
From The Economist print edition

Oakland's new tax on drug users

WITH the approval of 80% of its voters, Oakland last month became the first city in America to exact a sales tax on cannabis. Los Angeles, San Francisco and other Californian cities may follow along. It is a sign of harsh budgetary times. Although Californians have been allowed since 1996 to buy cannabis for medicinal purposes, only a state sales tax was later added to their purchase, not a local one too. Now, at any rate in Oakland, consumers will have to pay both.

Cannabis sellers claim to be pleased. "We completely support the taxes. It's one step closer to legitimising the business," says Richard Lee, a local retailer. And, indeed, the case for buying the stuff without a doctor's prescription is gaining ground. Barack Obama has said that the federal government would not interfere with a state's right to regulate the drug. This opened the door for Tom Ammiano, a Californian assemblyman, to introduce a bill earlier this year that would legalise the cultivation of marijuana and its distribution and sale to people over 21.

The California Board of Equalisation, the state's revenue agency, calculates that if Mr Ammiano's bill gets through, the tax receipts could be almost $1.4 billion a year. On top of that, say supporters, there would be lots of cannabis-driven tourism.

There is another side to it, of course. A study by the Substance Abuse and Mental Health Services Administration found that among those seeking treatment for drug and alcohol addiction, the number of cannabis addicts rose from 12% in 1997 to 16% in 2007. The rise is blamed in part on the weed being more potent than it used to be. The National Institute on Drug Abuse says it is up to five times stronger than it was in the 1970s. But, compared with other drugs, cannabis is still relatively benign—and the thought of that extra tax revenue tempts hard-up California.

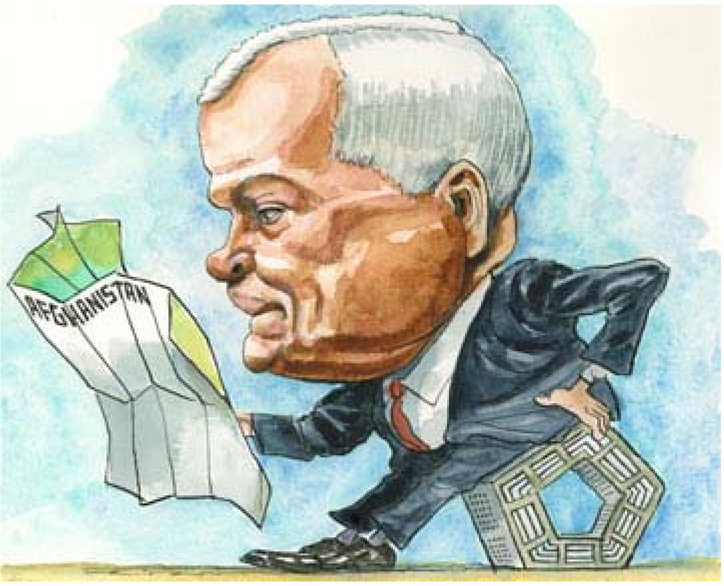
Lexington

A lucky hawk so far

Aug 6th 2009
From The Economist print edition

Robert Gates, a success under George Bush, seeks to do even better under Barack Obama

Illustration by KAL



NAPOLEON, it is said, preferred a lucky general to a good one. Sitting in the E-ring of the cavernous Pentagon is a man who has shown himself to be both fortunate and skilful. These days the gossip among Washington's national-security *savants* is whether the unassuming Robert Gates is, in fact, the best secretary of defence that America has ever had.

Perhaps so. Fate has been kind. Mr Gates is already unusual for being kept on as defence secretary by a new president entering the White House. Hired by George Bush in 2006 to salvage the war in Iraq, Mr Gates is trying to do the same in Afghanistan for Barack Obama. If anything he has become more influential, taking on not just Iraqi militias and the Taliban, but also a stubborn domestic foe: the "iron triangle" of armed services, defence industries and Congress that controls the Pentagon's gargantuan military-spending programmes.

His 1996 autobiography, "From the Shadows", describes Mr Gates as "the ultimate insider". He joined the CIA in 1966 and, despite being embroiled in such controversies as the exaggeration of the Soviet threat and the Iran-contra affair, he became the CIA's director under Mr Bush's father. He also spent nine years in the National Security Council under Republican and Democratic presidents—a longer period in the White House "than any president but Franklin D. Roosevelt", he wrote immodestly.

Mr Gates might have been just another old cigars-and-whiskey cold warrior, seeing out his working days as president of Texas A&M University, had it not been for the wreckage that Donald Rumsfeld did so much to create: the invasion of Iraq, the botched occupation and the moral collapse of Abu Ghraib and Guantánamo Bay. Mr Rumsfeld was dumped in November 2006, at the height of Iraq's sectarian war, after voters in the mid-term elections had given Mr Bush what he admitted was "a thumpin'".

Many think Mr Gates took the thankless job at the Pentagon, in the dying days of a discredited administration, out of an old-fashioned sense of public duty. There is a hint that friends of George Bush *père* moved in to clean up the mess created by his son: Mr Gates was close to Brent Scowcroft, a stalwart of the elder Mr Bush and doyen of conservative pragmatists, who had opposed the invasion of Iraq. Did Mr Gates have a clear plan of action? His officials say he was always in favour of a "surge" to try to turn around the war in Iraq. And yet he had been a member of the Iraq Study Group, a bipartisan panel that advocated a phased withdrawal from Iraq soon after Mr Gates's appointment. Its report

mentioned the option of a brief surge, but with little conviction; it said more troops would have a temporary effect at best.

As it was, Mr Bush's last gamble in Iraq proved to be more successful than anyone would have dared to predict. The new commander, General David Petraeus, was certainly lucky: Sunni militants turned against al-Qaeda, and Shia ones declared a ceasefire. But he was smart enough to encourage the process with his new counter-insurgency doctrine. And Mr Gates was smart enough to support the general, extending the troops' time in the battlefield and ordering the expansion of the army and marines.

Mr Gates soothed relations with the top brass, the State Department and Congress that had been frayed by his predecessor's truculence. If he lacked Mr Rumsfeld's bark, Mr Gates had a sharper bite: he fired the civilian head of the army over the neglect of wounded soldiers at the Walter Reed army hospital; he sacked the civilian and military heads of the air force over the careless handling of nuclear weapons; and he removed the commander in Afghanistan, General David McKiernan. Many thought this last move was harsh, but accepted the reasoning: a better man had to lead what was now the main war effort.

With the presidential campaign in full swing last year, Mr Gates sought to set priorities for his successor: the Pentagon had to make permanent its hard-won skills in irregular warfare. Heretically, he said that more money had to be given to other arms of government so they could help the military campaign. Senior commanders had to concentrate on winning today's small wars rather than preparing for future big ones—"next-war-itis" as he called it. He kept a "countdown clock" in his briefcase marking the time he had left before his retirement to Washington state. He also kept count of those killed and hurt on his watch.

In the event, Mr Obama asked Mr Gates to stay. The clock has been thrown away, and he keeps writing condolence letters to families of the dead. Mr Gates wants to be seen as a selfless public servant (though he did once call himself "secretary of war") and says he does not enjoy the job. Yet at the age of 65 it has recast him as, possibly, a giant of American foreign policy. He has the chance to reshape the Pentagon. He wants to kill several big projects, among them the air force's beloved F-22 fighter (too fancy for today's wars) and the army's new family of armoured vehicles (can't withstand roadside bombs). Even the new presidential helicopter would be chopped. And he is preparing a new defence review which, it is said, will emphasise "hybrid" warfare (a mixture of insurgencies and conventional wars).

Afghanistan will test that luck

Mr Gates offers the Obama administration, say many, bulletproof protection from accusations of mishandling the wars. "I did not moult from a hawk into a dove," says Mr Gates. The old spy in him will not say how long he intends to stay. Some think he will go next year; others that he will stay on until the end of Mr Obama's first term. Either way, history will probably judge him not on the war in Iraq but on the one in Afghanistan whose outcome, amid requests for ever more reinforcements, is far from certain. But as Napoleon put it: "In war there is but one favourable moment; the great art is to seize it!"

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Cuba's penurious revolution

When two plus two equals three

Aug 6th 2009 | HAVANA
From The Economist print edition

The promise of reform and renewal stalls under Raúl Castro

AP

WHEN Cuba celebrated the anniversary of its revolution at the end of last month with a mass rally in the central city of Holguín, a nearby building was draped with a gigantic picture of Fidel and Raúl Castro thrusting their arms skyward under the words, “The Vigorous and Victorious Revolution Keeps Marching Forward.” But this habitual triumphalism was in sharp contrast to the messages that Raúl, installed as president last year in place of his ailing elder brother, put across in his speech to the crowd and in another this week to the National Assembly. He announced the unexpected and indefinite postponement of a long-overdue Communist Party congress, which he had scheduled for the end of this year. And he was blunt about Cuba’s economic problems.

Lower world prices for nickel and a fall in tourism revenue have led the government to cut its forecast for economic growth this year from 6% to 1.7%. The island is still recovering from three devastating hurricanes last year, which the government says caused damage worth $10 billion. The American economic embargo is still there, too.

But Raúl Castro blamed “our own shortcomings” for the fact that “often two plus two results in three.” Even as he fixes some problems, others open up. He has answered longstanding grumbles about public transport by repairing Cuba’s pot-holed roads and buying new Chinese buses. Last month he ordered a wage increase for 543,000 teachers and education workers.

But he has also ordered cuts in “non-essential” education and health spending, as well as in the meagre free-food rations that Cubans receive from the state. Some of these measures are a response to a trade deficit that soared by 65% in 2008. Partly because of the higher cost of food and fuel, imports rose by 41%, to $14.2 billion, whereas exports were just $3.7 billion.

Hugo Chávez, Venezuela’s president, supplies Cuba with cheap oil in return for the services of Cuban doctors and security and intelligence specialists. But Cuban oil consumption appears to have risen sharply, because the government dealt with chronic power-cuts by buying thousands of thirsty diesel generators. To save energy, in June the government ordered all factories, shops and offices to switch on their air conditioning for just five hours a day, in the afternoons. So shops are mostly empty in the mornings and idle employees sit around by open doors and windows.

Food is also in short supply. Despite its abundant farmland, Cuba imports 80% of its food (much of it

from the United States since a loophole was opened in the embargo in 2001). Inefficient state farms occupy three-quarters of the best land but leave much of it idle. Raúl Castro has tried to raise production by offering land to private farmers. But this scheme has been slow to get off the ground: agricultural production actually fell by 7.3% in the first quarter, and meat production fell by 14.7%. “The land is there, here are the Cubans, let’s see if we get to work,” he said in Holguín.

On taking over as president, Raúl Castro called for “changes of structure and concept” in the economy, raising hopes in some quarters that Cuba would imitate Vietnam in moving to a capitalist economy under communist political control. Those hopes have yet to be met. He has instead concentrated on better administration, quietly promoting his own aides to key positions in the state bureaucracy. He has stressed discipline and control. The assembly approved a law to set up a new auditor-general’s office, to stamp out corruption. The education minister and the rector of the University of Havana were fired after a poll found revolutionary spirit was lacking among both students and professors.

This spirit of caution was reflected in the decision to postpone the party congress, an event that would define “the economic model that will guide the life of the nation,” he said. It was also expected to see the handing over of political leadership, from the elderly revolutionary *nomenklatura* to a younger generation. But Raúl Castro said the party was not yet ready. The real reason appears to be the continuing influence of Fidel. Obliged to surrender the presidency when he underwent abdominal surgery three years ago, he still exerts influence and an apparent veto power behind the scenes. Instead of a congress, Raúl Castro convoked a “national conference” to elect new party leaders.

The regime and the Cuban people face an unusually hot summer. But there are no signs of political control weakening. Unlike Fidel Castro, Raúl is sparing in his use of strident ideological rhetoric. In his speeches he made few references to the United States and its embargo. He welcomed the resumption last month of talks about migration, suspended under George Bush. But he reminded the assembly, and the world, that “I was elected to defend, maintain and continue perfecting socialism, not to destroy it.”

Colombia and its neighbours

Bazookas and bases

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From The Economist print edition

Álvaro Uribe tries to convince South America that the FARC is the real threat

WHEN Colombian officials revealed on July 26th that three Swedish anti-tank rocket launchers sold to Venezuela in 1988 had been found in a camp belonging to the FARC guerrillas, they expected their neighbours to share their outrage. Instead, the leaders of Brazil and Chile seemed to side with Venezuela's Hugo Chávez in expressing unease over a pending deal that would give the United States use of several Colombian air and naval bases. Frustrated by the reaction, Álvaro Uribe, Colombia's president, cut short a midyear holiday at one of his ranches for a lightning tour of seven South American countries (including Brazil and Chile). His aim is to persuade them that the real security threat in South America comes from drug-financed insurgents and their allies, not the United States.

The Colombian army found the anti-tank bazookas last year but Sweden only recently confirmed that it had sold them to the Venezuelan army. Colombian officials point out that the find seems to corroborate e-mails on computer equipment belonging to Raúl Reyes, a senior FARC leader killed when the Colombian army bombed his camp just over the Ecuadorean border in March last year. In messages dated January 2007, Iván Márquez, a guerrilla commander, writes that he met three Venezuelan officials who promised him "bazookas" and later says that he received "85 millimetre anti-tank rockets".

Mr Chávez dismissed the e-mails as fabricated. He has insisted that his government does not protect the guerrillas. But the *New York Times* this week reported that more recent intercepted FARC communications obtained by unnamed intelligence sources pointed to continuing help from Venezuelan officials in procuring weapons for the guerrillas.

As so often when thrown on the defensive, Mr Chávez went on the attack. He recalled his ambassador in Bogotá—for the third time in 20 months. He threatened to block all trade between the two countries. This totalled $7.3 billion last year, of which $6 billion was Colombian exports. Venezuela relies on its neighbour for much of its food, as well as, believe it or not, natural gas. This week he ordered a halt to some car imports and vowed to find alternative suppliers for other Colombian products.

He also claimed that the bazookas had been stolen from a Venezuelan naval base in 1995, though provided no proof. He said that the plan to give American forces use of Colombian bases could unleash a war in South America, and that he would buy "several battalions of Russian tanks" in response. In the past he has said that claims that he is helping the FARC are designed to justify a military attack on Venezuela.

Both American and Colombian officials dismiss such arguments as absurd. They have been talking about the base agreement since February and expect to sign it later this month. Colombia is offering the Americans facilities at Palanquero, its main air-force base, and backup access to two others, to replace an American base at Manta in Ecuador whose lease was not renewed by Rafael Correa, Ecuador's left-wing president. Manta was used by American AWACS for the surveillance of drug trafficking in the eastern Pacific.

But the agreement will also formalise facilities for the American trainers and surveillance planes that help Colombian forces in anti-drug actions under Plan Colombia. This potentially involves giving the Americans the use of parts of four further bases, two of them naval ports (see map). Colombian officials this week stressed that whereas Manta was an American base, they are merely offering the Americans facilities at Colombian bases. The agreement would not involve increasing the number of American personnel in the country (capped by law at 800 troops and 600 civilian contractors, although only 250 are currently there). Americans will not be allowed to engage in combat or launch

operations from Colombia against a third country, they insist. "It's a co-operation agreement against drug trafficking, terrorism and other crimes," Jaime Bermúdez, Colombia's foreign minister, said.

But diplomacy and public relations are not Colombian strong points. Talk of half-a-dozen American bases leaked into the Colombian media and alarmed several South American governments. Celso Amorim, Brazil's foreign minister, said his country was worried about a strong American military presence "whose aim and capability seems to go well beyond what might be needed inside Colombia". Chile's President Michelle Bachelet called for the issue to be discussed at a meeting next week of the fledgling Union of South American Nations in Ecuador, whose president cut ties with Colombia after the raid on Reyes' camp. Apparently fearing a diplomatic ambush, Mr Uribe said he would not attend, and set off on his regional tour.

Tensions in the northern Andes will persist. Mr Correa is angry at the recent leak of a captured video in which a FARC leader refers to a donation to his election campaign. Ecuador countered by releasing what purports to be Reyes's diary, which implicates disgraced former aides of Mr Correa in accepting FARC money but not the president himself. (Colombia reckons the document is fabricated.) Until it gets active co-operation from all its neighbours in fighting the FARC and other drug traffickers, Colombia will conclude that it must rely on American support.

Venezuela's media crackdown

Switched off

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Moving towards monologue

A SLUGGISH economy, inflation, strikes and rampant crime: much of the recent news in Venezuela has been bad for the socialist government of President Hugo Chávez. Its response has been to intensify its harassment of the media. On August 1st, 34 radio stations were taken off the air for allegedly failing to submit the proper paperwork to the broadcasting regulator. In all, more than half the country’s 656 privately owned radio stations face fines and possible closure on this ground. Their owners say they have tried for years to update their paperwork, with no response from the authorities.

In addition, Diosdado Cabello, the minister in charge of broadcasting, announced plans to restrict radio stations from sharing programming so that local broadcasters would no longer be able to relay national news programmes, for example.

Days earlier the attorney-general, Luisa Ortega, unveiled a draft law against “media crimes” which proposes jail terms of up to four years for vaguely worded offences such as “prejudicing state security” or the “mental health” of the public. Not just reporters and media owners, but anyone expressing himself in the media (or failing to report news the authorities consider essential) may face prosecution. The right to free speech must be “regulated”, Ms Ortega said. Faced with an outcry that extended even to some of its own supporters, there were signs that the government might drop the law.

That would not help Gustavo Azócar, a well-known opposition journalist in the western state of Táchira, who was recently jailed while awaiting trial on charges of financial irregularity in 2000. Media-freedom campaigners say that he is a victim of judicial persecution because of his anti-government stance.

Two years ago, the government withdrew the licence of RCTV, Venezuela’s most popular television channel, which supported the opposition. It is threatening to do the same with the only remaining critical channel, Globovisión. This week members of a pro-government paramilitary group forced their way into the channel’s headquarters and hurled tear gas. (Their leader, Lina Ron, was arrested and Mr Chávez condemned the attack.)

The government’s concerted crackdown on critical media comes as Mr Chávez is pressing ahead with other measures that seem designed to make his “socialist revolution” irreversible. The president’s popularity rating has fallen to 52% (from 61% in February), according to Datanálisis, a polling company. He faces a parliamentary election next year at which his legislative majority is at risk. This month the government amended the electoral law to award a hugely disproportionate share of seats to the largest party, even though the constitution (drawn up under Mr Chávez) guarantees proportional representation. That will penalise the splintered opposition if it fails to unite. The new law also gives the electoral authority (controlled by the government) the power to gerrymander constituency boundaries. And, after this week, the opposition will find it even harder to get its message across.

The North American summit

Reluctant partners

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A messy ménage à trois

BARACK OBAMA can hardly be accused of ignoring his next-door neighbours. So far this year he has held six meetings with Stephen Harper, Canada's prime minister, and five with Mexico's president, Felipe Calderón. The three men will meet once again on August 9th for an annual North American summit, this time in Guadalajara in Mexico.

But familiarity does not necessarily imply deep friendship. Intertwined though their economies are through the North American Free-Trade Agreement (NAFTA), Mexico's hopes of forming part of something like the European Union are forlorn. Mr Harper shuns trilateralism, and seems to care only about strengthening Canada's bilateral ties with Washington. And since 2001 the United States has been less interested in integration than in border security.

This year the leaders will talk about their economies' problems. Both Canada and Mexico abhor the "Buy American" clause in Mr Obama's stimulus package. Mr Calderón will press Mr Obama to fulfil his promise earlier this year to restore a pilot scheme allowing Mexican truckers to travel north of the border.

Talk of setting a common position on climate change looks ambitious. The big success has been co-operation on public health. Thanks in part to a committee established at a previous summit, Mexican authorities worked closely with both American and Canadian laboratories to tackle swine flu. Diplomats hope to reinforce this co-operation before the bug's expected resurgence in the autumn.

The meeting may be dominated by the issue of security. On a visit to Mexico in April Mr Obama accepted that confronting violent drug traffickers was a "shared responsibility". Since then American officials have made bigger efforts to halt the southward flow of guns and money to the drug industry. So far this year they have seized $25.5m in cash destined for Mexico, almost five times as much as in the same period of 2008. All trains at main border crossings are now inspected. Mexican officials say that intelligence sharing has improved. Friction remains. The release of $100m in anti-drug aid to Mexico has been slowed by concerns about abuses by the army. But Mr Harper may offer Mexico help in training its police forces.

Mr Calderón is likely to berate Mr Harper over Canada's sudden decision last month to require Mexicans to obtain visas before travelling to the country. This followed a big increase in the number of Mexicans turning up in Canada and claiming to be refugees. Clamping down on abuses in the immigration system is popular in Canada. But in this case it does nothing to boost economic ties and tourism between supposed partners.

Argentina's meaty diet

Bife de lomo, or bean sprouts?

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From The Economist print edition

The discreet rise of vegetarianism in the carnivorous capital of the world

Illustration by Claudio Munoz

VISITORS to Palermo, a well-heeled neighbourhood of Buenos Aires, are used to having their hair primped to perfection and their body fat measured. That goes both for the humans who frequent the trendy boutiques and spas and for the prize Aberdeen Angus cows that arrive at the agricultural show held there every July. This year, the visiting ranchers are preoccupied by the beef industry's informal pessimism index—the share of young cows that farmers slaughter for meat rather than keep for breeding. It has recently hit a three-decade high, owing to recession, drought and government price-controls. To add culinary insult to economic injury, vegetarianism is spreading in Argentina.

In the world's most carnivorous country, vegetarians used to be a tiny band of masochists. But when the economy collapsed in 2002, a recently formed Argentine Vegetarian Union gained members, and veggie restaurants sprouted. The main reason is cost. Vegetarian restaurants have lower overheads since they don't need freezers, says Marisa Ledesma, one of the owners of Bio Restaurante, a smart eatery.

Now the economy is in recession once again. That seems to have led more omnivores to abandon meat, says Roberto Moyano, the manager of La Esquina de las Flores, the capital's oldest vegetarian restaurant. And as they munch soya steaks, diners relish new evidence of the health benefits of eating less red meat.

This year, the industry reckons, the average Argentine will get through 57 kilos of beef. That is down from 68 kilos last year, but it still means many more *asados* than the 41 kilos scoffed by Uruguayans, the world's second-biggest beef-eaters. Barrel-bellied carnivores are still the norm, and vegetarianism remains an isolated gesture of gastronomic defiance. Your correspondent recently came across a note scribbled on a paper napkin in a Palermo café which read: "In Argentina vegetarians are for eating."

Sri Lanka after the war

Behind the Rajapaksa brothers' smiles

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From The Economist print edition

Sri Lanka's government is wildly popular for its military victory. It should put this to more productive, less brutal, use

AFP

AFTER human excrement was dumped outside his house two years ago, M.A. Sumanthiran, a Sri Lankan human-rights lawyer, put up security cameras. He had won a ruling to stop the eviction of hundreds of Tamil migrants from Colombo and the enemies he made then have not gone away. In January, after Lasantha Wickrematunge, a journalist investigating high-level corruption and other abuses, was gunned down in Sri Lanka's biggest city, Mr Sumanthiran hired bodyguards.

Now, he is in yet more trouble. Last month an article on the defence ministry's website identified him and four other lawyers as "traitors in black coats". Their crime was to be representing Mr Wickrematunge's newspaper, the *Sunday Leader*, in a contempt-of-court case related to two libel suits filed by the defence secretary and president's brother, Gotabhaya Rajapaksa. The defence ministry's article wrongly claimed that Mr Sumanthiran, a Tamil, was known for defending members of the Tamil Tigers, the rebel group routed by the army in May. Quoting unnamed lawyers, the article said it was traitorous and unethical to "oppose a national hero like the secretary of defence, with whose unwavering commitment and focus Sri Lanka is a free country today."

A big majority of Sri Lankans, including most of the main Sinhalese community, would probably agree with that. President Mahinda Rajapaksa, a nationalist with the common touch, was popular before winning the war; he is now revered. Success against the rebel Liberation Tigers of Tamil Eelam (LTTE) has left the government in control of its territory for the first time in over two decades. And it has rid the island-nation of a daily threat of terrorism. That is a great boost to its flagging economy. As another fillip, on July 24th the IMF approved a $2.6 billion loan to Sri Lanka.

Better still, victory affords Mr Rajapaksa an historic opportunity to heal the ethnic divisions, between Sinhalese and the long-abused Tamil minority, that have blighted Sri Lanka and fuelled the Tigers' struggle. But hopes that Mr Rajapaksa will seize this opportunity are ebbing, for two reasons. First, for Tamils and other dissidents, Sri Lanka is not free. The abuses that attended the army's campaign included alleged state-sanctioned murders and abductions of suspected enemies and intimidation of journalists, lawyers and aid workers. They are greatly diminished, but they continue. And over 280,000 Tamils, former inhabitants of the Tigers' fief, languish in internment camps.

Nor is the government hastening towards a long-promised political settlement with the Tamils, thousands of whom were killed, allegedly by army shelling, in the war's last months. Mr Rajapaksa says he has put off that task until after he is re-elected president, probably next year.

The government has been castigated for its wartime brutality by Western governments, some of which tried unsuccessfully to launch a UN probe into war crimes alleged against both sides. It has used this criticism to rally supporters: an ugly Sinhalese nationalism permeates mainstream politics and media. Yet, understandably flushed with pride at a military success that many considered beyond it, the government also seems surprised by its critics. Gotabhaya Rajapaksa said he understood why Western governments were critical: "they are jealous of us because they have not defeated terrorism as we have."

One of three Rajapaksa brothers with ministerial status, Gotabhaya said criticism of the invective against Mr Sumanthiran and other lawyers on his ministry's website amounted to an attack on "media freedom". That was rich. A dozen journalists have been murdered under his brother's government; over 30 are said to be in exile; in June the government announced its intention to reconvene a draconian press watchdog axed by its predecessor.

The interned Tamils are especially keen to see the government return to the rule of law. It had promised to release 80% by the end of the year. But with only 10,000 elderly detainees so far released, the target looks out of reach. In fact, the government gives plausible reasons for cooping up so many—that they must be screened for remnants of the odious LTTE, and their villages cleared of mines. Having ended such a costly war, it wants to give the LTTE, which retains cash and support among expatriate Tamils, no chance to recover. Nor, having been slammed for its alleged slaughter of Tamil civilians, should it hasten them home to minefields.

Yet the government's perceived lack of concern for the misery of the displaced bodes ill for reconciliation. About a third of their children under the age of five are moderately or severely malnourished. It has placed controls around the camps; the International Committee of the Red Cross, a lone international humanitarian presence on the war's last battlefield, was last month forbidden access to most internment camps and forced to close four offices in eastern Sri Lanka.

The east, which is ethnically mixed and was loosely controlled by the Tigers until 2007, is the government's blueprint for post-conflict development. By recruiting a gang of LTTE defectors, and helping them win a flawed local election, it has given a Tamil face to its rule. But the expression of the east's elected chief minister, a former LTTE child soldier called Sivanesathurai Chandrakanthan, is glum. He complains that the central government in Colombo has ceded almost no power to his provincial administration. In response, officials of the central government say that it alone can bring the economic development that is required, and they have a point. Under the guidance of another Rajapaksa brother, Basil, road-building is gathering pace in the east. Allegations of abuse by the security forces and their paramilitary proxies have greatly declined.

But the north, which is mostly Tamil, may be harder to quell. For a municipal election on August 8th in Jaffna, the north's biggest city, the government has recruited a controversial Tamil leader, Douglas Devananda. He may win: his main opponents say they are afraid to hold rallies. By phone from Jaffna, which journalists are forbidden to visit during the election, a veteran Tamil opposition leader, V. Anandasangaree, alleges that intimidation by Mr Devananda's men has made it impossible for his campaign team to hire vehicles. "It's going to be a fraud," he claims. "To be very frank, I am working without a car." According to a poll released last week by the Centre for Policy Alternatives, a think-tank, 65% of respondents in Jaffna either said they identified with no party or refused to say which one it was.

This is not the political solution that Mr Rajapaksa promised. That was supposed to be based on implementing and extending a programme of regional devolution that has existed on the statute books for two decades, but not in fact. Mr Rajapaksa's postponement of that promised settlement suggests he may have reconsidered it. So did the sacking last month of one of his loyal servants, Dayan Jayatilleka, Sri Lanka's ambassador to Geneva, who warded off the threatened UN war-crimes probe in May. Mr Jayatilleka's offence, he believes, was to have advocated regional devolution in a newspaper. "I thought I was operating within the bounds of government policy," he laments.

Bill Clinton and Kim Jong Il

Bill and Kim's excellent adventure

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Strange encounter in Pyongyang

AFP

Don't say cheese

IT WAS a hard-eyed, unemotional get-together. They had never met face-to-face, but once sparred dangerously. Bill Clinton, the unusually unsmiling former American president who had probably come closer to fighting North Korea than any president since the Korean war, was in Pyongyang to win the release of two female American journalists facing 12 years of hard labour. There he met Kim Jong Il, the grim-faced leader of arguably the world's most repressive regime and a defiant nuclear bomb-tester to boot.

Mr Kim is an ace non-smiler. In receiving Mr Clinton (he had turned down earlier suggested emissaries), he was out to show his people and the world that, despite rumours of ill health, his was a regime to be reckoned with, and that even powerful America would have to reckon with it. Mr Clinton, no doubt asked to do nothing to help Mr Kim's cause, was determined above all, well, not to smile.

Whether the normally affable Mr Clinton managed to stay poker-faced through the three hours and 15 minutes he and Mr Kim spent in each other's company (long enough, even with translation, for a chin-wag), his aides are not saying. North Korea says Mr Clinton apologised fulsomely for the actions of the two journalists who had strayed across its border from China. American officials deny any such apology was given. They also denied reports as news of the visit broke that Mr Clinton had brought a conciliatory message from President Barack Obama. His was a purely humanitarian visit.

Might it nonetheless herald a breakthrough in the diplomatic confrontation over North Korea's recent bomb and missile tests? Only Mr Kim knows. He is demanding bilateral talks with America. But the two had been having those intensively as part of six-party talks that include South Korea, Japan, China and Russia.

They stalled a year ago over the Bush administration's efforts to get Mr Kim to accept plausible verification of steps towards the dismantling of his nuclear programmes, for which he has been promised large dollops of aid. He was to stop making plutonium as well as suspected work on uranium. The plutonium preparation had restarted in 2003 after an earlier freeze deal, negotiated in 1994 with the Clinton administration, had collapsed because of evidence of cheating over uranium.

Mr Kim's verification tantrum was followed by what may have been a stroke. North Korea-watchers speculate that the ensuing hostility, including May's second bomb test (the first, which may have fizzled, was in 2006), was Mr Kim's way of ensuring the loyalty of the army to him and his third son, the chosen successor.

Yet by testing another nuclear device, declaring the six-party talks finished and demanding that the world deal with his country as a nuclear power, Mr Kim may have gone too far. Not only did he slap away the outstretched hand of the new Obama administration. He also angered China, his provider of last resort, which joined the condemnation of the latest nuclear and missile tests at the UN Security Council and even agreed to implement harsher sanctions.

China has reportedly encouraged one of its investment firms to pull out of a high-profile mining deal with a North Korean company that is now a target of UN sanctions. Chinese customs officials recently let it be known that they had stopped a shipment of vanadium, a metal that can be used as an alloy to strengthen missile casings. America is watching North Korea's ports—a ship thought to be carrying missiles or other banned exports to Myanmar earlier turned back after being shadowed for days at sea. And China and Russia are for the moment keeping a closer eye on land and possibly air routes. Perhaps Mr Kim has decided it is time to change tack and start talking again. Mr Clinton's visit could yet prove his face-saver. Something for Mr Kim, at least, to smile about?

Pakistan's constitutional troubles

Generals and judges

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From The Economist print edition

The supreme court goes after the remnants of Pervez Musharraf's rule

Reuters

The lawyers settle their account

FOR much of the past two years, the judiciary has been at the centre of political turmoil in Pakistan. It could be again after the decision by the country's Supreme Court to declare Pervez Musharraf's former state of emergency illegal. On July 31st the court's full bench, led by the chief justice, Iftikhar Mohammad Chaudhry, struck down the "provisional constitutional order" of November 3rd, 2007, and declared all decrees based on it unconstitutional. The order had amounted to a second coup by Mr Musharraf, enabling him to rule by decree, sack troublesome judges such as Mr Chaudhry and become president while remaining army chief. Mr Chaudhry's ruling stops short of asking the government to initiate a case of treason against the former president, who is safely ensconced in a flat in London and is immune from prosecution anyway. But it has shaken up plenty of other people.

For starters, 76 judges of the high courts and supreme court who were appointed either by Mr Musharraf or by President Asif Zardari have been sacked; 29 judges who were serving at the time of the order and agreed to stay on after it have been reported to the supreme judicial council for misconduct. The council is led by Mr Chaudhry. Some have chosen to resign, others to contest the charges. The federal government has been given four months to get parliament to endorse all 37 decrees or ordinances passed by the former general. Those not passed will be scrapped. The ordinances include one lifting corruption and criminal charges from Mr Zardari and hundreds of other members of his People's Party and its coalition partner, the Muttahida Qaumi Movement.

Mr Chaudhry and 13 colleagues were restored to the supreme court by President Zardari following a prolonged protest led by lawyers and the opposition party, the Pakistan Muslim League of Nawaz Sharif, a former prime minister. Both Mr Chaudhry and Mr Sharif have won popularity for standing up to a dictator, whereas Mr Zardari is despised for cutting a deal with him to come to power. The supreme court's decision has therefore been hailed as a blow in favour of democracy and an independent judiciary. Most people do not care to remember that Mr Chaudhry and his colleagues also took their oaths after Mr Musharraf's first coup in 1999 and owe their promotions to him.

The new ruling shows that President Zardari's government has lost any support it might once have had among the judiciary. For most of Pakistan's history, the courts have been under the thumb of the executive. Now, the pendulum has swung the other way, with Mr Chaudhry having accumulated extensive powers to hire and fire judges and to throw out laws and constitutional amendments. Next, he has the 17th amendment in his sights. Passed under Mr Musharraf, this increased the power of the president at the expense of the prime minister; it also stops Mr Sharif from becoming prime minister for a third time. As for Mr Musharraf, Mr Chaudhry has left his fate to parliament. Had he sought to charge the former president with high treason (as many demanded), he would have had to contend with the military high command, including the army chief General Ashfaq Kayani, and many corps commanders, in whose name and authority the 2007 ruling had been promulgated.

In short, Mr Chaudhry has increased his own authority at President Zardari's expense, while endearing himself to the opposition and staying clear of the army. He has another four years to go as chief justice. The next stage will come when parliament debates whether to try Mr Musharraf for treason. At the same time the opposition hopes to change the 17th amendment with the support of the supreme court—and to hound Mr Zardari from office.

Taiwan and China

Reunification by trade?

Aug 6th 2009 | TAIPEI
From The Economist print edition

A plethora of free-trade deals is driving Taiwan closer to China

Illustration by Claudio Munoz

FREE-TRADE agreements (FTAs) are often contentious but rarely would one have as much strategic significance as that proposed between China and Taiwan. On July 29th Taiwan's president, Ma Ying-jeou, elected last year on a platform of liberalising business restrictions and easing military tensions with the mainland, said a China-Taiwan trade pact should be signed as soon as possible. The two sides have quietly concluded months of unofficial negotiations and Taiwan's economy minister, Yiin Chii-ming, says he wants formal negotiations to start in October. The island is in a hurry.

Mr Ma is willing to take the political risk of tying a self-ruled democratic island economically to its giant authoritarian neighbour because of the rest of the world's craze for free-trade deals. Taiwan has diplomatic relations with 23 countries. Most nations recognise China and fear to sign FTAs with Taiwan lest they incur China's wrath. Already, says Huang Chih-peng, the director general of Taiwan's Bureau of Foreign Trade, the world's 230-odd bilateral or multilateral trade pacts are harming the export-dependent island's economy.

Mr Ma is even more worried about what will happen next year when trade agreements between China and the Association of South-East Asian Nations—so-called ASEAN+1—take effect. Taiwan's exports to China face tariffs ranging from 5% to 15% and its government fears that, unless they are lowered, the island will be left at a competitive disadvantage in the giant Chinese market. This disadvantage would greatly worsen if a planned ASEAN+3 were one day signed, embracing South Korea and Japan.

Economic benefits, political costs

A think-tank commissioned by the government said the proposed pact could increase Taiwanese GDP by 1.65-1.72%—more if services and investment were included. In addition, it argued, the pact could increase foreign direct investment by $8.9 billion in seven years and create around 260,000 jobs (though other economists said this was too high). The president wants an outline agreement in place before ASEAN+1 comes into force, with the details worked out and implemented bit by bit after that. An incremental approach, officials say, is needed because an immediate FTA would be too disruptive to Taiwan's economy.

Disruptive is right, but not perhaps mainly to the economy. China still asserts that Taiwan is an integral part of the People's Republic. Many Taiwanese, including the pro-independence opposition party, fear that

the proposed accord is really a ploy by China to bring about unification by stealth. They also argue that once the pact is signed, there is no guarantee that China will not lean on members of other FTAs to keep Taiwan out anyway. In contrast, Mr Ma insists that the proposed pact would make it easier for Taiwan to sign free-trade accords with third parties.

“It is a suicidal policy that makes Taiwan locked into China,” says Huang Kun-huei, the chairman of the pro-independence Taiwan Solidarity Union. In a sign of the popular unease raised by the pact, the opposition Democratic Progressive Party, which has virtually no parliamentary clout, still managed to collect over 120,000 signatories to a petition asking the government for a referendum on it (though Taiwan’s high threshold for referendum participation means that such a thing may not get off the ground).

In fact, dramatic political shifts seem unlikely in the short term. Mr Ma has promised that when the deal is negotiated, the wording will not compromise the island’s political stance. And China-watchers think the increasingly sophisticated government in Beijing is not likely to make heavy-handed political demands in case this rebounds on Mr Ma and he is voted out of office in 2012 (the Chinese much prefer him to the independence-minded opposition). Nevertheless, in the long run China hopes that economic interdependency and goodwill will eventually encourage the island to return to the fold. The trade pact will be a test of whether that hope can be fulfilled.

Trial by jury in Japan

Hanging in the balance

Aug 6th 2009 | TOKYO
From The Economist print edition

For the first time since the second world war, Japan conducts jury-like trials

WHEN 72-year-old Katsuyoshi Fujii shuffled into a Tokyo court on August 3rd with a rope tied around his waist, having confessed to stabbing a neighbour, his fate was all but sealed. Crime may be exceedingly low in Japan but anyone who is prosecuted almost inevitably ends up behind bars. The conviction rate for all prosecutions is 99% and confessions—made in police custody without a lawyer present—are almost as common. But on this occasion, for the first time since 1943, citizens from outside the legal profession stood in judgment of Mr Fujii, alongside professional judges. These “lay judges” not only help determine innocence or guilt but punishment too. They can even order the death penalty, though Mr Fujii got 15 years.

This is a big change for Japan, where, according to Takashi Maruta of Kansei Gakuin University, trials have long been “ceremonial”, with lots of legal jargon and little questioning by judges of police evidence. Citizen juries were suspended during the second world war because eligible jurors, men over 30, were away fighting. After a spate of executions of innocent people in the late 1980s, pressure mounted to bring civilians back into the courtroom. Some legal scholars such as Mr Maruta wanted American-style juries; what they got was a fudge in which lay judges sit alongside the professionals. The experiment will, however, be studied by other Asian countries such as South Korea and Taiwan that share aspects of Japan’s system.

In a society of hierarchy and deference towards authority, laymen will rarely dare to argue with professional judges. Opinion polls suggest a large majority of Japanese people are loth even to take part in a trial.

That said, in Mr Fujii’s case, the judges took the unusual step of cross-questioning the accused and the victim’s son. More than 2,000 people showed up to get tickets for the trial. It may be an imperfect way to democratise the judicial process, but it looks like a step in the right direction. With Japan about to hold an election that could end 55 years of almost uninterrupted one-party rule, the more ordinary citizens can fill the power vacuum by taking part in public life, the better.

Banyan

India's hamstrung visionary

Aug 6th 2009
From The Economist print edition

The wider lessons from India's hostile reaction to its prime minister's talks with Pakistan

Illustration by M. Morgenstern

WHILE sipping syrupy tea and watching television in a Mumbai slum, Banyan was once cheered to see the kindly face of Manmohan Singh, the prime minister, appear on screen. What a gift to India he is: honest, accomplished, wise—a leader-sage. But not to everyone. "World Bank gangster!" one tea-drinker hissed.

Admittedly, the venue was a haunt of India's biggest communist party, whose devotees are especially resentful of Mr Singh's two big achievements: the programme of economic reforms he unleashed as finance minister in 1991; and the nuclear co-operation deal he struck with America and pushed through India's rowdy parliament last year. The first unshackled India's mixed economy, releasing the entrepreneurial vigour of millions. The second made its unlicensed nuclear programme more legitimate, removing the main objection to India's presence among great powers. For these boons, obtained in the teeth of jealous bureaucrats and political rivals, Mr Singh may be remembered as one of India's most transformational leaders.

So it is remarkable how widely the left's antipathy towards him is shared. In parliament he is a misfit—a long-serving prime minister who lost the only election he has ever fought (it was for a Delhi parliamentary seat). Sonia Gandhi, the Italian-born leader of the ruling Congress party, has twice picked him to rule in her stead. Yet within the party Mr Singh inspires conflicting feelings. They are jealous of the favour Mrs Gandhi shows him; his political instincts are deemed poor; his economic views are to the right of many Congressmen. Even the great praise Mr Singh wins abroad—recently from President Barack Obama—sits awkwardly with some Indians. Proud as they are to have a well-regarded leader, many would prefer Mr Singh to annoy his Western admirers by sticking it to them more forcefully.

These shortcomings help explain how dramatically Mr Singh ran aground after launching himself on a third great transformation: peace with Pakistan. At a meeting in Sharm el-Sheikh with Yusuf Raza Gilani, his Pakistani counterpart, Mr Singh had been expected, at least in India, to make encouraging noises on restoring a four-year diplomatic process between the old foes. This had been frozen by India after last November's seaborne assault on Mumbai by Pakistani Islamist terrorists. But an historic effort by Pakistan's civilian leaders to mollify their wounded neighbour—by admitting that the plot was launched from Pakistan, investigating it and last month putting five alleged ringleaders on trial—impressed Mr Singh. If Pakistan could maintain this progress, by starting to dismantle the anti-India jihadist groups its army once reared, then he was expected to promise it a return to formal dialogue.

But he gave Pakistan more. In a vaguely worded statement, he and Mr Gilani said Pakistan's counter-terrorism efforts and the dialogue should be considered separately, suggesting to Pakistanis that the peace process would become "blast-proof". They also noted, for the first time in any public Indian document, a longstanding Pakistani allegation, which India denies, that it is backing insurgents in Pakistan's western state of Baluchistan. Many Pakistanis, resentful of the fact that India's efforts to destabilise their country draw little comment abroad, were delighted. But Indian pundits and politicians, including within Congress, went ballistic, forcing Mr Singh into a rapid retreat.

No peace process, he swiftly "clarified", could endure acts of Pakistan-linked terrorism. The two issues were to be decoupled only to the extent that Pakistanis must end anti-Indian militancy unconditionally. But the opposition's fury, vented in a parliamentary debate on July 29th and 30th, was reserved for the mention of Baluchistan. Mr Singh was accused of handing the Pakistani army an alibi for its murderous use of militant proxies—a monstrous outcome. Mr Singh's defence, that to let Pakistan air fictive grievances was a tribute to Indian magnanimity and strength, looked weak.

Mr Singh may have blundered. His ambition to reopen former trade routes across a peaceful Indian subcontinent is laudable. But this, unlike his former visions, of a more market- and America-friendly India, is widely shared: all the country's main parties want peace with Pakistan. The dialogue began, as Mr Singh reminded parliament, under a government of the main opposition Bharatiya Janata Party (BJP). Indeed, much of the BJP's rancour over his alleged giveaway was a bid to rally itself after a disappointing election. The serious divisions in India are not over whether peace with Pakistan is desirable, but whether it is possible. And Mr Singh seems unable to bridge that gap. If the dialogue is renewed, as eventually it must be, it will therefore be bound by new limits. India would be unlikely to make any agreement with today's feeble Pakistani civilian leaders whom Mr Singh sought to bolster in Sharm el-Sheikh. So there is little prospect, unlike under Pakistan's former army dictator, Pervez Musharraf, of settling the countries' border disputes, including over Kashmir.

His real transformation

Having claimed ownership of foreign policy in this government, by appointing an unimposing foreign minister, Mr Singh has relearned the limits of his authority. Now he needs to husband it better—because India has other problems that perhaps only he can solve. The biggest of these concerns climate change.

Amid negotiations on replacing the Kyoto protocol, at the climate summit in Copenhagen in December, India is emerging as one of the main obstacles to a global agreement. Though it is the fourth-biggest carbon-emitter, it refuses to promise to curb the growth of its emissions, arguing that these are still modest per Indian. That is a strong argument, but half the world can cite it. To make India more accommodating, and align its interest with the planet's, Mr Singh will have to effect a third transformation. This would be his greatest yet.

Iran's enduring turmoil

It's far from over

Aug 6th 2009 | CAIRO AND TEHRAN
From The Economist print edition

President Mahmoud Ahmadinejad, reconfirmed in office, still faces a groundswell of bitter and spreading opposition

AFP

THE incumbent president claims to have won a walloping 63% of the vote in the disputed presidential election of June 12th. He is still backed by Ayatollah Ali Khamenei, the Islamic Republic's supreme leader, its security forces, its state-run media, and a parliament dominated by fellow conservatives. Yet, after his inauguration on August 5th, Mahmoud Ahmadinejad has little to savour as he settles in for a second four-year term. His position is far from secure. The crisis is still acute.

The difficulties he faces were symbolically exposed at a confirmation ceremony held on August 3rd to launch his second term. In a pointed break with protocol, many senior officials, including two former presidents, found themselves too busy to attend. So was the family of Ayatollah Ruhollah Khomeini, the leader of the revolution of 1979 and the Islamic Republic's founding father, which by tradition is prominent at such events. And when Mr Ahmadinejad tried to repeat the unprecedented show of fealty he performed at the last such ceremony in 2005 by kissing Mr Khamenei's hand, this time the supreme leader flinched, prompting a clumsy kiss of his shoulder instead.

Hardly had the ceremony closed before street protests erupted anew across Tehran. Bonfires were set alight, slogans chanted, horns tooted and pitched battles with police ran far into the night, when cries of *Allahu Akbar* (God is Great!) echoed as loud as ever from rooftops, as they have done nightly since the election that millions of Iranians still believe was stolen. Though far smaller in numbers than the mass demonstrations in the poll's immediate aftermath, the protests have continued sporadically, despite campaigns of sweeping arrests and intimidation, as well as increasingly Orwellian efforts to brand dissidents as agents of an enemy plot.

The most recent effort to blame foreigners has taken a more ominously farcical twist as a show trial of alleged conspirators was aired on television. Promising to be a prolonged spectacle, it was launched with a parade of scores of prominent reformists in prison garb. After a lengthy indictment was read out, repentant ringleaders were shown making their confessions.

Alleging links between a range of Western (especially American) foundations and Iranian conspirators, including three reformist parties, the prosecutor suggested that vigilant security forces had foiled a "velvet" coup modelled on successful uprisings in Serbia, Georgia and elsewhere. His accusations swept up not only an array of notable academics with ties to foreign universities, but whole categories of

activist groups, including those seeking to protect the rights of women, ethnic minorities, labour unions and students.

The carefully edited confessions appeared to implicate Western media and intelligence agencies along with the defeated reformist presidential candidates and their backers in Iran's establishment. Looking drawn and vacant before the camera, Muhammad-Ali Abtahi, a cherubic, mid-ranking cleric who served for several years as a vice-president in the reformist administrations (1997-2005) of Muhammad Khatami, insinuated that Akbar Hashemi Rafsanjani, another former president and long a linchpin of Iran's power structure, had joined the conspirators out of a wish to avenge his defeat by Mr Ahmadinejad in the 2005 election. Appearing alongside Mr Abtahi, Muhammad Atrianfar, a newspaper editor and known protégé of Mr Rafsanjani, chided the former president for his errors and asked for forgiveness from the supreme leader ("whose wisdom and alert leadership is guaranteed by nightly secrets between him and God").

This cloud of conspiratorial innuendo had several purposes. One was to flesh out a narrative to explain the post-electoral unrest and to excuse the harshness of a crackdown that has cost at least 30 lives and sent hundreds, perhaps thousands, of Iranians to prison. Another, say dissidents, is to pave the way for a more direct attack on the most senior opposition figures. Conservative mouthpieces in parliament and the press have amplified calls for trials of the accused ringleaders, including Messrs Khatami and Rafsanjani, as well as the leading defeated candidate, Mir Hosein Mousavi. Were this to happen, it would mark the Islamic Republic's abandonment even of its filtered pluralism and shift it finally towards a unipolar political system.

Yet far from crumbling in fear, the opposition has responded to the confessions with renewed outrage and calls for more protests. In a letter posted on his website, Mr Mousavi said the trial displayed the moral collapse of those directing it, promising that one day they would themselves be tried for what he called "Iran's tragedy". Mr Abtahi's wife and daughter, ignoring warnings to remain silent, asserted that his confession had been forced.

Among the wider public, the trials appeared only to widen the rift between conservatives and their opponents. Although many still cling to foreign devilry as an excuse for Iran's woes, others have long since grown cynical—and with good reason. In the past, televised confessions have been followed swiftly, as soon as the supposed penitent has been freed, by vehement repudiations. Most Iranians are aware of the duress people suffer in jail. Among recent victims, apparently beaten to death in police custody, was the son of an aide to Mohsen Rezai, a former head of the Revolutionary Guard who was the sole conservative candidate to compete against Mr Ahmadinejad for the presidency.

Shut them up

Prominent Iranians who have been arrested

Muhammad-Ali Abtahi	Vice-president under former President Muhammad Khatami, blogger	On trial
Mohsen Aminzadeh	Deputy foreign minister under Khatami, leading member of Islamic Iran Participation Front, the biggest reformist group	On trial
Muhammad Atrianfar	Editor of two popular reformist newspapers (now banned), *Hamshahri* and *Shargh*, protégé of former President Akbar Hashemi Rafsanjani	On trial
Maziar Bahari	Correspondent for *Newsweek* and documentary film-maker	On trial
Muhammad Ali Dadkhah	Human-rights lawyer, colleague of Shirin Ebadi, a Nobel peace-prize winner	On trial
Saeed Hajjarian	Writer, adviser to Khatami	Arrested, not yet on trial
Faezeh Hashemi	Women's-rights activist, former parliamentarian, daughter of Rafsanjani	Held briefly later freed
Muhammad Reza Khatami	President Khatami's brother	Rumoured to have been arrested
Mohsen Mirdamadi	Leader of Islamic Iran Participation Front, former national-security-committee chairman	On trial
Behzad Nabavi	Industry minister under Mir Hosein Mousavi's government in 1980s, deputy speaker of parliament under Khatami	On trial
Abdullah Ramezanzadeh	Government spokesman under Khatami	On trial
Abdolfatah Soltani	Human-rights lawyer, colleague of Ebadi	On trial
Kian Tajbakhsh	Iranian-American scholar	On trial
Mostafa Tajzadeh	Deputy interior minister under Khatami	On trial
Ebrahim Yazdi	Aide to Ayatollah Khomeini, former foreign minister, secretary-general of Freedom Movement of Iran	Arrested, but later freed

Source: *The Economist*

Many conservatives are, in fact, far from enthusiastic about their president. Even if he can withstand the opposition's scorn, dismay and anger, he faces trenchant distrust within his own camp. A tussle with the supreme leader last month forced him to scrap the appointment of an in-law as vice-president. Personal clashes have led him to sack several top officials in the intelligence service, including its minister. These may be just the opening shots in what may be a sticky process to win parliament's approval of a new cabinet.

Such struggles will also handicap Mr Ahmadinejad in economic and foreign policy. The Iranian economy was buffeted by international sanctions and lower energy prices even before political unrest shrivelled investment nearly to zero. It is in poor shape to endure still more of its president's erratic populism. And Mr Ahmadinejad's regime, now fully exposed in its ugliness, can expect little mercy from the world at large.

Weakened as they are, Iran's leaders may find it expedient to curb some of their enthusiasm for foreign adventures and perhaps even their controversial nuclear programme. But their heightened xenophobia and demonisation of contact with the West augur badly for Barack Obama's effort to engage with Iran's rulers. Indeed, he is already tempering his early call for dialogue. Instead, there is more talk of tightening sanctions and developing even bigger bunker-busting bombs.

A Palestinian congress

Fatah searches for renewal

Aug 6th 2009 | BETHLEHEM
From The Economist print edition

The Palestinians' leading political party tries to rejuvenate itself

AFP

Mahmoud Abbas tries to look young

THEY were all there: party functionaries from Ramallah, the West Bank's administrative hub, in their shiny suits; rugged district leaders from the West Bank's gritty northern reaches; ambassadors from around the world; grassroots campaigners; and local business bigwigs, smoking fat cigars. Some of the women wore traditional dress and head scarves; most had Western clothes and flowing hair. But everyone had one thing in common: around their necks they all wore the black-and-white check scarf of Fatah, the Palestinian movement founded in 1954 that has long struggled to create an independent country in a land that is still controlled by Israel.

On August 4th more than 2,000 delegates gathered in Bethlehem in the Israeli-occupied West Bank for the sixth and largest conference in the movement's history and its first on Palestinian soil. The last time a "general assembly" convened was 20 years ago, in Tunisian exile. The three-day meeting's main tasks were to elect a new central committee (hitherto 21-strong) and a new 120-member Revolutionary Council, and to agree on a new manifesto. Fatah's leader, Mahmoud Abbas (also known as Abu Mazen), opened the event with a rambling oration. He presides over the Palestinian Authority that runs those parts of the fledgling state Fatah still controls, after the party lost control of the Gaza Strip to the Islamists of Hamas in 2007.

The convention drew hundreds of exiles who have dedicated their lives to fighting Israel from Lebanon, Syria and other Arab countries. They returned to a land that has drastically changed in the decades since they left. Some had never set foot on Palestinian soil. Israel's decision to let in the exiles, many of whom had been involved in guerrilla attacks on the Jewish state, was a gesture intended to boost Mr Abbas and his policy of peace. But Fatah's rival, Hamas, tried to thwart the conference by forbidding hundreds of would-be participants from leaving Gaza.

That the conference took place at all was a victory for Fatah and for Mr Abbas. They had to override the objections of many "outsiders" from the diaspora who objected to a conference being held on occupied territory. At the last convention, in 1989, the exiles had set the tone. This time they were a minority.

But it came at a bad time for the nationalist movement as a whole. Fatah is locked in a bitter power struggle with Hamas and is itself divided. In the run-up to the congress Farouq Qaddoumi, who runs the political department in Tunis of the Palestine Liberation Organisation, an umbrella for the nationalist movement, accused his rival, Mr Abbas, and a Fatah strongman, Muhammad Dahlan, of involvement in a plot to kill Fatah's longtime leader, Yasser Arafat, who died in 2004. Unsettling rumours of foul play persist within Fatah, though they have never been substantiated.

Many delegates said the conference's main goal was unity. Others hoped to "strengthen the movement", "bring in new blood", "elect a new, younger leadership" and "set our strategy and decide where we are going". It was certainly a rare chance to shake things up. Fatah's popularity has flagged since the Oslo Accords, signed in 1993, set up the Palestinian Authority but failed to produce a truly independent state. In January 2006 Fatah's loss to Hamas in a general election was owing to resentment of its leaders' corruption and abuse of power. A year-and-a-half later, Fatah lost control of nearly 1.5m Palestinians when Hamas violently ousted it from Gaza.

There has been a dire need for reform ever since Arafat died. But Fatah has done little to change a common perception that its leaders are corrupt and the organisation stagnant. Mr Abbas and his allies have held the younger generation back. Torn by in-house power-struggles, Fatah also has an identity

crisis. Once a liberation movement bent on recovering Palestine by force, it has evolved into a political party ready to compromise with Israel on touchy issues such as the Palestinian refugees' proclaimed "right of return" and the question of Jerusalem, which both Israel and the Palestinians view as their capital. But many Fatah people still hanker after revolution, harking back to the heroic days (albeit often mythical) under Arafat.

Such conflicting views were evident. "I don't believe in negotiations," said Issam Salah from the Jenin area, known for its fierce fighters. "They have led nowhere. We must go back to the guns and throwing stones." The ambassador to Japan, Waleed Siam, disagreed. "Resistance has many forms and colours. One is economic development, which I believe is the only way."

A key Fatah man who was not at the conference was Marwan Barghouti, serving five life sentences in an Israeli prison. He is expected to get the most votes in the central-committee election; if released in an oft-mooted prisoner exchange, he might well then challenge Mr Abbas for the leadership. He would have a better chance of bringing Fatah and Hamas together and might inject extra energy into the Israeli-Palestinian peace process.

As *The Economist* went to press, a final document had yet to be agreed on. At the 1989 convention, "armed struggle" against Israel was deemed the only way to "liberate Palestine". This time a new declaration will commit Palestinians to negotiate but keep armed struggle as a "right" if talks fail. "Resistance", said Mr Abbas, was "legitimate under international law". Some delegates wanted to drop any hint of endorsing violence but others said that Fatah would lose even more support if it seemed to roll over in the face of Israel's strength. Stung by Israel's fierce attack on Gaza eight months ago, few Palestinians want to promise never to fight back.

Iraq and America

We don't need you any more

Aug 6th 2009 | BAGHDAD
From The Economist print edition

Iraqi commanders say they can run the show on their own. Really?

AMERICAN commanders in Baghdad have been here before. In 2004, a year after the invasion that toppled Saddam Hussein, they handed the reins of security to freshly trained forces of a once-again sovereign Iraq and encouraged them to take control of the main towns. But the Iraqis proved unable or unwilling to hold the line against the insurgents. The Americans delayed their exit and set about retraining the Iraqis. This time will it be different?

Probably yes. Since they again took control of the urban areas early last month, Iraqi security forces, now numbering 274,000-plus regulars and interior-ministry troops along with 277,000 police, have surprised American commanders with their new assertiveness. If anything, the Americans now find their former understudies too aggressive. “They’re like kids with a brand-new muscle car, out there burning rubber,” says an American officer. “It almost scares you.”

That may sound condescending. But there is genuine cause for worry. Overconfidence among soldiers can be as dangerous as timidity. That was evident recently when Iraqi troops raided a camp that hosted 3,400 Iranian dissidents north of Baghdad. Most of them belong to the People’s Mujahideen of Iran (PMOI), also known as the Mujahideen-e Khalq, a group given sanctuary by Saddam during the Iran-Iraq war in the 1980s, after it fell out with the ruling clerics in Tehran. After the Americans took over in 2003, the PMOI people at Camp Ashraf, as the place is known, were disarmed. More recently the Iraqis decided to take over the camp, doubtless with the encouragement of their ruling fellow Shias in Tehran. Ignoring American protests, the Iraqi forces killed at least 11 inmates. If such crude methods are used elsewhere—for instance, in handling insurgents wanting to come onside—national reconciliation is unlikely to be achieved.

Moreover, under the new dispensation, American forces themselves feel both more constrained and more vulnerable. They can no longer move freely around Baghdad. Some say they feel as if they are “under house arrest”. They have to ask for permission to leave their bases and can do so only under an Iraqi escort. This is a huge change. Most Iraqis like it, for it makes them feel masters in their own house.

But they may yet regret it. For a start, Iraq will still need military aid, no matter how much its government throws its weight around. Only the Americans can provide drones and helicopters as well as logistics and electronic devices. If their freedom of movement is further curbed, the Americans may start to leave earlier than at first contemplated. On a recent visit Robert Gates, the defence secretary, said he may pull 5,000 soldiers out ahead of schedule. A leaked memorandum by a senior American staff officer in Baghdad suggests pulling all troops out by the middle of next year, 15 months early.

Would the Iraqis then be able to cope? No one is sure. The new security forces are certainly trigger-happy. Some are proving undisciplined. Last week a gang made up of members of the presidential guard and led by the head of security for the second-biggest Shia party robbed a bank, killing eight bank workers before making off with $7m. The police did not dare stop them. In the end, troops from the interior ministry did so, but only because they belonged to a rival Shia party. Such incidents do not bode well for Iraqi peace.

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Sudan's dress-code row

A martyr to her trousers

Aug 6th 2009 | KHARTOUM
From The Economist print edition

Lubna Hussein makes an ass of the law

AFP

The lash of her tongue

IN SOME settings, light-green slacks would be merely a fashion crime. In Sudan they may actually be against the law. Lubna Hussein faces 40 lashes and an unlimited fine if she is convicted of being inappropriately dressed in public—for wearing those slacks. She was arrested a month ago, under Article 152 of Sudan's criminal law, which forbids "indecent clothing in public" without specifying exactly what that means. According to Ms Hussein, ten of the 12 women arrested with her immediately accepted they had been improperly dressed. They each got ten lashes and paid a fine equivalent to $100.

Ms Hussein, however, insisted she was innocent, and says she has done nothing wrong in the eyes of the Koran or Sudanese law. Moreover, she has cleverly embarrassed the authorities by turning her ordeal into a media circus. A journalist, she printed 500 invitations to her trial and sent out e-mails to the world's press, inviting them to her flogging. Women's-rights campaigners, foreign diplomats, journalists and well-wishers flooded into the court. Working as a press officer for the UN, she could have benefited from a form of diplomatic immunity to escape prosecution altogether. But the plucky Ms Hussein quit her job, the better to fight her case. She wants to put the law on trial. At a further hearing this week almost 100 protesters, mainly women, lined up outside the court. Some carried signs suggesting Sudan was going back to the Dark Ages.

Sharia law, the basis of Sudan's criminal law, was brought in by President Gaaffar Numeiri in 1983 and has stirred conflict ever since. Sudan's largely non-Muslim south fought a civil war with the Muslim north on and off for decades; the imposition of *sharia* was one of the southerners' biggest grievances. Under a peace deal in 2005, *sharia* is meant to apply only to Muslims, but Ms Hussein insists Christians were among those, in her case, who have already been flogged. South Sudan's semi-autonomous government lambasted the arrest of Ms Hussein and her comrades.

Not every northerner is happy either, as the many Muslims protesting against the floggings made clear. A restrictive dress code was first introduced and enforced by President Omar al-Bashir's Islamist government after it came to power in a coup 20 years ago. But much of the doctrinal fervour went out of the Islamist revolution when its main ideologue, Hassan al-Turabi, was kicked out of the government in 2000. Since then, there has been a gradual relaxation of the old curfews, dress codes and other social prohibitions.

Many more women now wear trousers and other Western forms of dress than they did a few years ago. Young women, in particular, have got used to ignoring or subverting the more restrictive forms of dress demanded by pious or misogynistic Muslim men. Despite covering up in public, underneath their outer garment some younger women going to parties will sport a bare midriff between a T-shirt and trousers. They call this, roughly translated, the gap between church and state.

So the harsh punishments meted out to the ten women go against the grain of Sudan's shifting social mores. Hence the fierce backlash in Ms Hussein's favour. Besides, Sudan still boasts one of the most powerful women's movements in the Arab world, which helped bolster support for Ms Hussein from other women in Sudan and elsewhere. One female protester outside the court this week had flown in from Turkey. A placard proclaimed that "Lubna's struggle is every woman's".

The apparently random action of a few policemen and the ensuing furore come at a bad moment for Sudan's government. After years of diplomatic isolation over its actions in the western region of Darfur,

Sudan is seeing the first signs of a more conciliatory attitude from Barack Obama's administration. A new American envoy to Sudan, Scott Gration, has suggested that the country be taken off the State Department's terrorist blacklist. This has been a longstanding Sudanese demand, so the government rejoiced. But the public flogging of a now-famous journalist would deeply humiliate a regime trying to show a kinder face to the world.

The judge has adjourned Ms Hussein's trial until September to reassess whether she should indeed benefit from diplomatic immunity, despite having quit her job. That may prove a handy way for Sudan's authorities quietly to drop the whole case, just as Ms Hussein limbers up for the next round.

Botswana's Bushmen

Stop that hunting

Aug 6th 2009 | JOHANNESBURG
From The Economist print edition

Another setback for the Kalahari Bushmen

WHEN Botswana’s High Court ruled three years ago that the country’s Bushmen (also known as the San) should be allowed to live and hunt in their ancestral territories in the Central Kalahari Game Reserve (CKGR), it seemed a comprehensive victory for some of the world’s last desert hunter-gatherers. But since then the authorities have issued no licences. In fact, none has been given out since 2001. And a recent court case does not inspire much hope for the Bushmen.

Relocated in the 1990s and earlier this decade, only a few Bushmen have been able to return to the empty scrubland of the central Kalahari since the 2006 ruling. Scores have been arrested for hunting without permits, according to Survival International, a charity that helps indigenous peoples trying to preserve their traditional way of life. This week, for the first time, six Bushmen, including at least one of the plaintiffs in the 2006 case, Tshetha Ntwatamogala, were convicted of illegally hunting gemsbok and eland in the reserve.

After a fortnight behind bars they were all cautioned and freed following the intervention of Gordon Bennett, a British barrister who had previously argued the High Court case. Still, their conviction is a setback. As one of the judges in the 2006 case put it, letting people back into the reserve without letting them hunt is “tantamount to condemning the remaining residents of the CKGR to death by starvation”.

The government has long argued that hunting in the reserve must remain illegal to protect the wildlife, even though the Bushmen, who hunt with spears, bows and arrows, have a relatively small effect on the animals. Clifford Maribe, spokesman for Botswana’s foreign ministry, says that the authorities are acting in the Bushmen’s own interests, pointing out that permanent structures such as clinics and schools cannot be built inside the reserve. “Living inside the game reserve limits their livelihood opportunities,” he says. “Their standard of living cannot be improved.”

The government may have other motives. Botswana is arguably Africa’s biggest all-round success. It is lucky enough to have a lot of diamonds, a tiny population (of less than 2m), an income per head (around $6,000) far above the continental average despite the ravages of HIV/AIDS, and a decent record of government. But some Botswanans are embarrassed by some of their compatriots living much as they did a thousand years ago. Add to that the cattle-herder’s traditional disdain for hunter-gatherers.

Mr Bennett also argues that Botswana’s role as a front-line state against apartheid in neighbouring South Africa has left its own special legacy. “[Botswanans] have allowed themselves to believe that having a separate ethnic group without contact with the outside world is effectively apartheid and they shouldn’t have it.”

Germany's political fragmentation

People's parties without the people

Aug 6th 2009 | BERLIN
From The Economist print edition

Jitters over the decline of the Volksparteien

Illustration by Peter Schrank

GERMANY'S two big parties— the *Volksparteien* or "people's parties"—have long been the pillars of an enviably stable political system. But they have lost ground over the years and, whoever wins the parliamentary election on September 27th, the outcome may be more fragmentation.

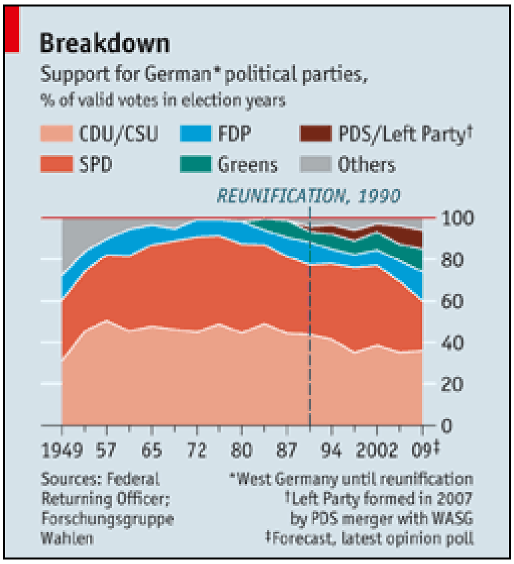
Between them, the centre-right Christian Democratic Union (CDU) and the centre-left Social Democratic Party (SPD) captured 90% of the votes cast in national elections in the 1970s. In 2005 their combined vote fell below 70%, forcing them to govern together in a "grand coalition". The latest polls say their share could sink to around 60% (see chart). "The *Volksparteien* are coming to an end," says Peter Lösche, a political scientist.

This worries many Germans. Countries with parliaments elected by proportional representation are often cursed with myriad political groups. In Germany, though, the large *Volksparteien* have made coalition-building relatively easy, and squeezed out parties of the extreme right. If the *Volksparteien* are in trouble, Germans fear, democracy may be too.

Already, the number of parties in the Bundestag has risen from three to five, with the entry of the Greens in 1983 and, following unification in 1990, of the populist Left Party, heirs to East Germany's communists. Further splintering may one day produce a thuggish force on the right. Voter participation in national elections is slipping, though it remains close to 80%. The erosion of the big parties reflects "dissatisfaction with our democracy", claims a new book, "*Volksparteien* without *Volk*".

Obituaries may be premature, though. The woes of the

Volksparteien are partly the result of having to share power unhappily in the grand coalition. The SPD, in particular, is going through a bad patch. It has feuded internally over reforms enacted by the grand coalition and its predecessor, an SPD-Green government. It has run through four party chairmen in the past five years and its candidate for the chancellorship, Frank-Walter Steinmeier, now foreign minister, looks no match for the popular incumbent, the CDU's Angela Merkel.



Things may look different on election day. The SPD could well win more votes than the disastrous 25% or so now predicted by polls. Or the vote could result in an old-fashioned coalition between the CDU and the liberal Free Democrats (FDP).

When the term *Volksparteien* was coined in the 1960s it was not a compliment; their catch-all character suggested political promiscuity. The CDU's roots are in the Catholic church, especially in Germany's south (its Bavarian sister party, the Christian Social Union, or CSU, considers itself a separate *Volkspartei*). The SPD's base is the trade unions. In the "golden '70s" both were part of cradle-to-grave subcultures whose members worked, holidayed and voted together. Yet both had diverse schools of thought (the CDU has a left-leaning "social" wing and the SPD has a relatively liberal one). "Only a *Volkspartei* can promise well-being for all," says Tilman Mayer of Bonn University.

Nowadays churches have emptied, union membership has slumped and voters have become more footloose. The parties' combined membership (excluding the CSU's) has dropped from 1.7m in the 1970s to 1m, with the CDU surpassing the SPD for the first time last year. Nearly half are 60 or older. The young have other interests. "They don't connect their situation with the overall political situation," says Franziska Drohsel, head of the Young Socialists, the SPD's youth wing. "They feel they have to struggle alone." It looks like a vicious circle. Little now distinguishes the CDU's voters from the SPD's; they are prone to last-minute decisions. Both parties woo the amorphous middle, to the dismay of those voters who want political contours to be drawn sharply.

With five parties in the Bundestag, the make-up of the next government could become a lottery. If the CDU and the FDP jointly fall short of a majority, the *Volksparteien* could be forced into another grand coalition. Or there might be some weirder combinations: perhaps a three-way partnership of the SPD, the FDP and the Greens; or perhaps even a CDU-Green pairing. A more straightforward left-wing alliance of SPD, Greens and the Left Party has been ruled out by the SPD—for the time being. Chaos and fragmentation are not inevitable. Some of the mess will be sorted out if and when the SPD drives the Left Party back to its eastern stronghold, or consents to work with it at national level.

In a sea of floating voters much depends on a party having appealing leadership. The CDU has this in Ms Merkel; the SPD could rebuild it, perhaps best in opposition. Mr Mayer thinks the economic crisis will renew voters' faith in the traditional parties, which represent "stability and trust". Even if that is wrong, catch-all parties of some sort will continue to hold sway in Germany, believes Wolfgang Schroeder of Kassel University. As they grow, the second-tier parties could yet become *Volksparteien* themselves.

Basque terrorism

Dying spasms

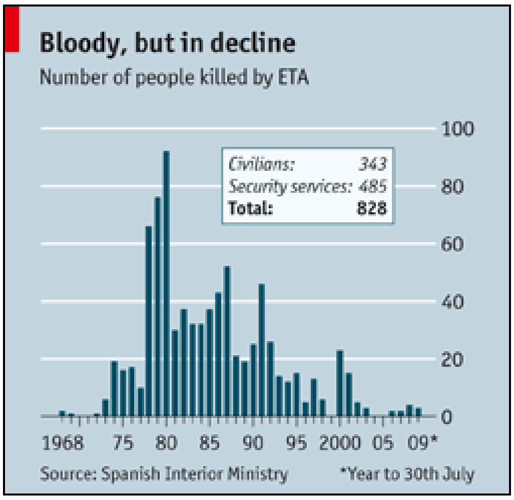
Aug 6th 2009 | MADRID
From The Economist print edition

The latest attacks by ETA only show its weakness

IT WAS a macabre, if predictable, way of celebrating ETA's 50th anniversary. Last month the violent Basque separatist group planted two bombs, killing two Spanish policemen and ripping out several floors of a Civil Guard barracks.

One big device, with 200kg of explosives, wrecked the 14-storey barracks in the northern city of Burgos on July 29th but, surprisingly, did not kill anyone. Sixty-five people (among them children) suffered only slight wounds. The next day in Majorca, a limpet bomb under a police vehicle killed two. This raised questions about whether police had let down their guard after several years of successes against ETA.

The attacks have dented the belief among Spaniards that the group had been largely defeated, and raised flagging morale among ETA's militants. The long-term picture, though, remains unchanged: ETA is in steep decline. Founded during General Francisco Franco's dictatorship, ETA is becoming more anachronistic by the year. Its ability to inflict violence has declined steadily since the group was at its strongest in 1980, when it killed 92 people in a single year (see chart).



Around 750 ETA members are in jail. ETA's political fronts have been banned and no longer take part in everyday Basque politics. Decades of bloodshed have achieved remarkably little. The three provinces that make up the Basque region in northern Spain already enjoy considerable self-government. ETA's aim of a separate state made up of four Spanish provinces and a part of south-west France is a pipe-dream; few people seem moved by the idea.

A formally recognised right to self-determination, which ETA would probably accept as second-best, also shows no sign of happening. In many ways, indeed, ETA is an obstacle to its own aims. Violence strengthens the resolve of Spanish governments, and weakens potential allies. After a serious attempt at talks before the latest ceasefire collapsed in 2007, the Socialist prime minister, José Luis Rodríguez Zapatero, now leaves the matter in the hands of the security forces.

Police released the images of six suspects who may have planted the recent bombs. They were fresh-faced young Basques—a reminder that ETA can still find new recruits. Recent history suggests, however, that all six will eventually end up behind bars.

Moldova's elections

In the balance

Aug 6th 2009 | CHISINAU
From The Economist print edition

The ruling Communists narrowly lose an almost-fair election

ALREADY the poorest country in Europe, Moldova has lately been doubly cursed by its politics. Protests after a parliamentary election on April 5th turned violent and led to three dead and hundreds detained in beastly conditions. Blame for that is still unclear: the authorities say that they were fighting off hooligans; protesters say that provocateurs hijacked their peaceful demonstrations against election rigging.

A mixture of international pressure, domestic discontent and a deadlocked result led to a rerun last week. Despite renewed claims of ballot-rigging the ruling Communists did worse than last time, with only 45% of the votes and 48 places in the 101-member parliament, a loss of 12 seats. The Democratic Party of Marian Lupu, a former senior Communist who split with the party after the April troubles, now holds the balance of power, with 13 seats. He could put the Communists back in power, or govern in coalition with three former opposition parties. They are a fractious lot, including some who want to reunite Moldova with Romania (to which it belonged in the pre-communist era) and others lobbying for business interests.

The immediate issue is who should replace the country's serving president, Vladimir Voronin. He masterminded the Communist Party's return to power in 2001. His second (and constitutionally final) term expired in April. The professorial, polyglot Mr Lupu would certainly raise Moldova's international profile (it could hardly be lower). But some in the anti-Communist camp doubt his credentials.

Beyond that comes the task of kick-starting overdue reforms. Moldova's wobbles between East and West have left it isolated and neglected. Mr Voronin has veered heavily towards the Kremlin in the hope of settling the frozen conflict with Transdniestria, a breakaway region backed by Russia. Despite yielding on issues such as the status of Russian military forces there, his soft line has brought no results.

The biggest boost to reunification would be economic and political success in the rest of Moldova. But Mr Voronin's crony-capitalist approach has kept the economy backward. The machinery of government is stuck in the 1990s. Relations with Romania, which should be Moldova's main advocate in the European Union, are astonishingly bad. Whatever coalition emerges, the new government will have plenty to deal with.

Aftermath of conflict in Georgia

The pawns of war

Aug 6th 2009 | TBILISI
From The Economist print edition

Georgia is resettling some, but not all, refugees

AFP

Home, for now

TEN months ago the fields around Tserovani were empty. Now they are the site of a whole town—complete with bungalows, health clinic, police station, schools and sports fields—for some 6,000 Georgians who fled their homes during last year's war with Russia.

Much-visited by diplomats and dignitaries, Tserovani, some 20km from Tbilisi, is an impressive sight. Yet it is a far cry from the life of most of those displaced by war in repeated rounds of turbulence since Georgia became independent in 1991.

The areas controlled by the Georgian government host about 30,000 people made homeless by last year's fighting over South Ossetia. (Others, predominantly ethnic Ossetians, sought refuge within South Ossetia or in Russia.) Of these, about 17,500 now live in new settlements like Tserovani, although none is as large, well-built or generously equipped. The rest live in renovated apartments or temporary accommodation, awaiting new homes.

Worse off, though, are many of the 220,000 or so people who fled earlier wars in Abkhazia and South Ossetia in the early 1990s. Just under half of them continue to live in dilapidated ex-Soviet buildings, such as disused hospitals, hotels and schools. Conditions are poor, and residents suffer much higher rates of depression and disease than the rest of the population. Many of them live in private accommodation, which can mean anything from squatting to owning property.

None of the older refugees received as much assistance as those displaced last year, though the government has promised to improve their lot. Since February, for example, contractors have been rehabilitating buildings in which they live and government lawyers have been transferring title deeds.

This is a change from the neglect that has characterised the lives of these displaced people for most of the past two decades. Take those who fled Abkhazia in the 1990s: successive administrations have insisted upon the principle of return rather than resettlement. Anything else, they reckoned, would be to accept ethnic cleansing. Besides, return would boost the numbers of ethnic Georgians in Abkhazia (before the war, Georgians outnumbered Abkhazians) and undermine the region's claim to independence. Last year Russia (but hardly anybody else) recognised the statehood of Abkhazia and South Ossetia.

Over the years the Abkhaz authorities allowed up to 45,000 people to return to the Gali region, which had been almost exclusively inhabited by ethnic Georgians. But conditions there remain precarious. Those returning have reported extortion, arbitrary arrest and even occasional kidnappings. And the return has been contentious. The Georgian government refers to returned people as "seasonal migrants". Abkhazia, for its part, has not let Georgians go back to other areas.

As ever, civilian populations are the pawns of politicians; their movement and settlement is the

continuation of war by other means.

Economist.com WORLD EUROPE

Danish greenery

Body heat

Aug 6th 2009 | COPENHAGEN
From The Economist print edition

Using corpses for greenery may be a step too far

AS COPENHAGEN gears up to host the UN climate-change jamboree in December, Denmark is keen to parade its green credentials. They include grants for energy-saving home improvements such as triple-glazing, solar energy and insulation. Business is pitching in with seminars and sustainability reports. Even job ads bear a green tinge. And consumers are paying for such green goodies as organic vegetables or loft-cladding.

But in one area, greenery might be taken to excess. Denmark's crematorium association has revealed its profitable sideline in recycling metal parts salvaged from the dead. Burnt bodies leave knee or hip replacements that can be recycled as scrap metal, says Allan Vest, the association's chairman. Since 2006 the country's 31 crematoriums have earned DKr 77,762 ($15,000) from 4,810kg of salvaged metal sold to a Dutch recycler.

When the ecclesiastical ministry changed the law to allow such recycling in 2005, it barred the reuse of such spare parts in works of art. But it did not say anything about telling relatives about the fate of a deceased. This is not a problem, says Mr Vest; recycling is good for the environment.

That principle underlies a second practice: recycling crematorium heat. Earlier this year, 15 crematoriums said they favoured sending waste heat into district-heating systems. This is because new regulations, due to come into force in 2011, will require crematoriums to filter out toxic substances such as dioxins and mercury from waste gases. To do this the crematoriums must use water to cool chimney gases from around 800°C to 180°C. It is the excess energy from the cooling process that crematoriums want to capture.

The International Cremation Federation, a lobby group based in The Hague, advises against commercialising the products of cremation. But the Danish Council of Ethics, a group including scientists, clergy and philosophers that advises parliament, has found no ethical reason to oppose recycling heat. Although it thinks burning granny especially to warm radiators would be indecent and illegal, cremation is a respectful and hygienic disposal of bodies. Recycling waste heat poses no ethical difficulty.

In any case, the council added, buried coffins gradually release energy through decay to feed plants and other organisms. Pushing up daisies and warming radiators come to the same thing in the end.

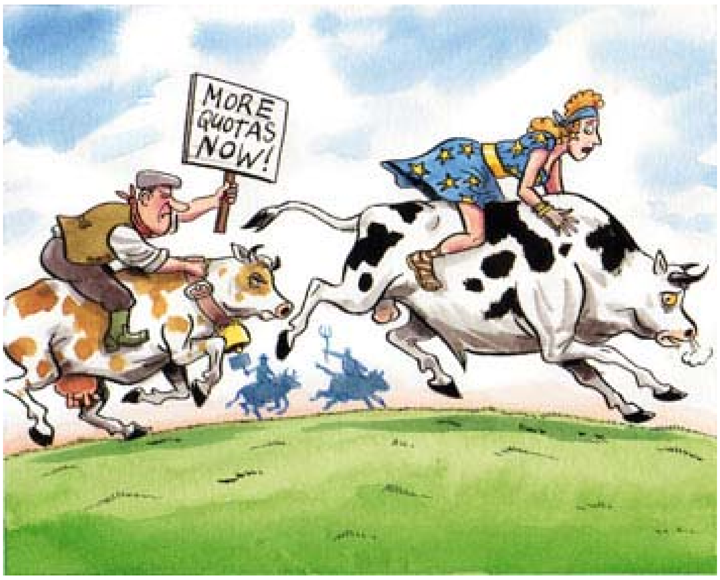
Charlemagne

Milky mess

Aug 6th 2009
From The Economist print edition

Europe's dairymen are wrong in thinking that they can regulate their way out of their woes

Illustration by Peter Schrank



GATHER together assorted business types—travel agent, house builder, car dealer, advertising executive—and ask them why times are hard. They will surely finger the same culprit: the global economic crisis. Then visit the protests being staged by dairy farmers across Europe (tread carefully, as these usually involve burning hayricks, spilled milk and a clutch of confused cows). Ask why they think raw-milk prices have collapsed and it will take a time before anybody says "economic crisis" or "consumer demand". Instead, the protesters are swift to blame the European Union and what they see as its failure to prop up prices. This is both telling and depressing. Farmers elsewhere may be unhealthily dependent on state aid. But Europe's dairymen are so obsessed by the need for regulation that the worst economic slump in more than 70 years barely enters their consciousness.

Look at what the protesters want above all else: the preservation of strict production ceilings on milk. Since 2008 these quotas have been on a slow path towards abolition as part of a modest series of reforms to the Common Agricultural Policy (CAP). Many protesters blame today's plunging prices on a slight easing of quota ceilings last year and this. Some want new production curbs imposed immediately to make milk scarcer and thus more expensive. (Others attack the supermarkets, accusing them of profiteering: retail prices for milk have hardly fallen, though prices at the farm gate have collapsed.)

But market forces explain the low milk price far better than the EU's decision to reduce its meddling. Look at the facts. Though Europe's dairy sector was permitted to increase production by 2-2½% in the year 2008-09, farmers did not take up this slack. Indeed, EU milk production fell by 0.9%, leaving overall European production some 4% below the quota. In other words, most farming is responsive to market forces. Yet the protesting farmers want to head backwards towards state planning.

Politicians and the press have rushed to pander to the demonstrators. "Europe deaf to farmers' cries," shouted the front page of one Belgian newspaper after hundreds of tractors gummed up central Brussels on July 22nd. Better market regulation is the "only solution", thundered a Belgian minister. In a joint statement the French and German farm ministers called on the European Commission to step up such market-meddling horrors as export subsidies and buying up surplus butter, saying measures taken so far fall short of what is needed. And though the plan is to raise the Europe-wide milk-production ceiling by 1% each year until quotas vanish altogether in 2015, the ministers suggested that Eurocrats should reconsider this plan and ponder suspending the 1% easing scheduled for 2010.

The European Milk Board, a farmers' lobby, wants EU dairy production curbed by 5% immediately, either through quotas or by paying farmers to limit production voluntarily. It is a seductively simple solution. Farmers are suffering: prices for raw milk have fallen by half in some countries since 2007, tumbling below the cost of production on many farms. Imposing tight quotas would raise prices.

But the plight of Europe's dairy industry is not so simple. The record high prices for milk and other farm commodities in 2007 were a bubble caused by many factors, including new demand in emerging markets (China's middle-classes developed a taste for yogurt, for example), and by unforeseen events (Australia suffered a terrible drought). In contrast, the recession has hurt global sales of cheese, a relatively pricey food that is a marker for rising affluence. This is especially painful to EU farmers since cheese-making consumes nearly half of all European milk.

Moreover, the EU's farmers are split. In places such as Italy, Denmark and the Netherlands, they yearn to produce more than the quotas allow. But French milk production is well below the ceiling set by the quotas, thanks to national rules that hobble production in dairy-friendly spots like Normandy, while helping pretty but unproductive regions such as the Alps. None of this stops French farmers from rioting for the preservation of the milk quotas—just as they did when the EU introduced them in 1984. Back then French farmers fought for an earlier system of buying dairy produce at guaranteed prices (a ruinous policy that created the EU's famous "butter mountains").

Just a little butter hillock

As it happens, quotas are finished. Whatever farm ministers imply in public statements, most EU governments are committed to abolishing them, France included. But under pressure from national governments, there has been a sliding away from a market-based approach. The European Commission will spend €600m this year on export subsidies and buying unwanted dairy goods which will then moulder in cold storage (the EU is not recreating mountains, insists one Eurocrat, "more a butter hillock").

There is an economic crisis, national officials say, when challenged on this backsliding. Yes, but it will end. If the authorities restrict production harshly, European dairies will be caught on the hop when global demand resumes (cows need to reach milking age, so you cannot just increase production by turning a tap). Dairy markets are global, and rivals like New Zealand dauntingly efficient. Europe should be a premium producer—creating butter mountains is disastrous for that brand image.

Farm policies tend to have perverse effects. Tax rules and regulatory incentives intended to preserve small farms make it hard to create larger, more competitive ones. Laws to protect small shops block the opening of new supermarkets and promote local and regional cartels—and the easy bullying of farmers. Governments need to be braver, and tell their protesting farmers: "Milk is good for you. It helps you to grow strong. So do markets."

Economist.com/blogs/charlemagne

Vacancy: Online editor

Aug 6th 2009
From The Economist print edition

The Economist is looking for an editor and writer to oversee our online coverage of Europe. The successful candidate will report to the Europe editor of the print edition, and will commission, edit and write articles. He or she will have a good knowledge of international politics and economics, excellent writing and editing skills, and boundless enthusiasm. Please submit a CV and sample article by August 24th. We are looking for a piece of no more than 550 words on any European theme that could appear in our Leader columns. Please email editjobs@economist.com or post your application to Edward Carr, Foreign Editor, The Economist, 25 St James's Street, London, SW1A 1HG.

Correction: Slovakia

Aug 6th 2009
From The Economist print edition

In our article "Hovorte po slovensky!" (August 1st) we misstated the size of Slovakia's Hungarian minority. It is a tenth, not a fifth, of the population. Sorry. This has been corrected online.

The looming electricity crunch

Dark days ahead

Aug 6th 2009
From The Economist print edition

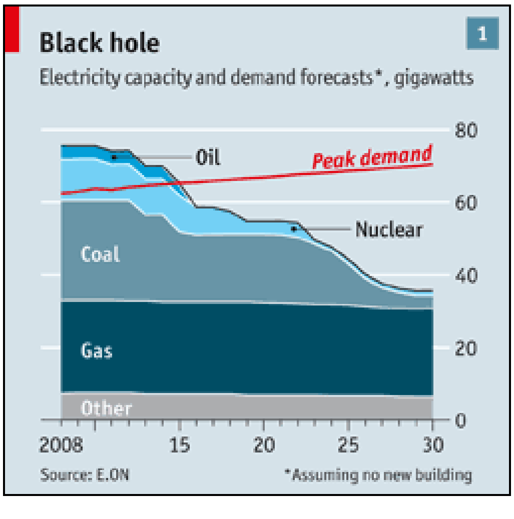
A shortage of power-generation capacity could lead to blackouts across Britain—and a dangerous reliance on foreign gas

Corbis

SOUTH AFRICAN burglars pay close attention to electricity. A moratorium in the early 1990s stopped new power stations from being built, and by 2007 demand was overwhelming the country's electricity grid. So Eskom, the national power company, began cutting supplies to specific suburbs for hours at a time. One side-effect of the rolling blackouts that afflicted Cape Town and Johannesburg was that they disabled the electric fences, spotlights and alarms that adorn richer people's houses, making them easy pickings for thieves. At first the blackouts were announced in advance; later, aware of the risks, Eskom imposed them without notice. Fortunately for South Africans, the economic slump has trimmed demand (and a huge, rushed building programme boosted supply), but it will be 2013 before order is properly restored.

Britain is running short of power too—so quickly that some economists claim, only just tongue-in-cheek, that the economic slowdown is useful. "A recession is the best demand-reduction policy ever invented," says Dieter Helm, an energy economist at Oxford University. Many power stations are due to close over the coming decade (see chart 1), and supplies are getting tight. The government reckons that, of a total of around 75GW in generating capacity, 20GW will disappear by 2015.

The private sector is less optimistic. EDF (a state-owned French firm that wants to build nuclear plants in Britain) puts the size of the hole at 32GW, and E.ON, a German competitor, reckons it will be 26GW. One survey of experts before the recession (conducted by Mitsui-Babcock, another power-station builder) found that three-quarters expected blackouts by the time of the London Olympics in 2012. When the BBC did a similar poll in 2008, the downturn had pushed the date back to 2015. "There's a risk of blackouts somewhere between 2013 and 2016, depending on how fast the economy recovers," says Mr Helm. "It may not happen," says an engineer, "but we'd be lucky".



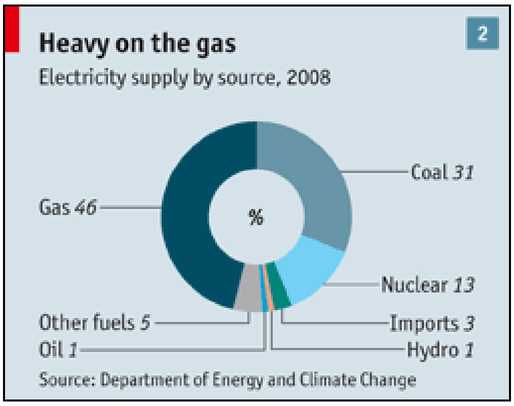
Indeed, Britain's energy grids are already showing signs of stress. A cold snap in the winter of 2005-06 led to a spike in demand for natural gas, which is used both as a heating fuel and to generate electricity. Prices shot up but, despite several pipelines linking

Britain to Europe, no extra gas was forthcoming from the continent. Big factories were instructed to stop work, and National Grid, the firm that runs the electricity network, came close to cutting supplies to homes as well.

Last year two power stations—one nuclear, one coal-fired—failed within minutes of each other, causing blackouts across the country. Officially, this was a one-off stroke of bad luck, but privately some think that a system with more spare capacity could have kept the lights on. Less obvious but just as worrying, says John Constable of the Renewable Energy Foundation, a think-tank, is that electricity prices are becoming more unstable. “Volatility is a sign of a system under stress,” he notes.

Acid rain and old age explain the shortage of capacity. Britain’s coal and nuclear plants together account for just under 45% of all power generation (see chart 2). But most of the nuclear plants, and around half of the coal plants, are due to close in the near future.

The nuclear stations are simply too ancient to carry on: most are over a quarter of a century old. Around half have already shut down and are being decommissioned. Those that remain are increasingly doddery. British Energy, which runs most of the remaining reactors, had to shut two of its eight power stations last year after engineers discovered cracks in components. By 2023 only one nuclear plant will be left, a modern reactor at Sizewell in Suffolk. Some of the power plants may be patched up a bit and granted life extensions (one on Anglesey was recently given a nine-month reprieve), but not for long.



New nuclear plants are on the way, but there are worries about how much they cost and how uncertain returns on them are for investors. Even the most optimistic atom-splitters think that 2017 is the earliest date by which the first one can be built. They will come too late to help with the supply crunch.

Pollution controls will doom the coal-fired power plants. New European Union rules in the Large Combustion Plant Directive impose tough limits on emissions of nasty oxides of sulphur and nitrogen, which cause acid rain, as well as of carcinogenic particulates. To stay within those limits, coal-power stations will have to fit expensive scrubbing equipment. Because the facilities are comparatively old, many owners will not bother. Unscrubbed stations are allowed to operate for only a limited number of hours, and must close in any case by 2015. Those hours are being used up faster than expected, as recent high oil prices dragged up gas prices, making coal more attractive as a fuel.

Going for broke

In theory Britain’s liberalised energy market (which leaves private firms to make big investment decisions, with the occasional nudge from an independent regulator), should bring investors flocking to a once-in-a-decade opportunity to rebuild huge chunks of a developed nation’s electricity system. But there are concerns beyond simple economics, chief among them global warming and politics.

Britain has committed itself to meeting punishing climate-change targets. Its carbon emissions in 2020 must be 34% lower than their level in 1990, and that is only a stepping stone en route to an eventual cut of 80% by 2050. These targets would seem to rule out rebuilding coal-fired power stations, because coal is the most planet-warming of the fossil fuels.

Instead, ministers want to see a big expansion in the amount of energy Britain gets from the waves, the sun and the wind—especially offshore wind. They are hoping to see 33GW-worth of maritime windmills (somewhere around 5,000 turbines in all) built over the next 11 years. That is quite an ambition, and many doubt whether it can be realised. Britain’s entire offshore capacity in 2008 was only 0.6GW, although admittedly this was the biggest in the world. History is not reassuring: a combination of nimbyism and poorly-designed state subsidies means that Britain’s previous, less-ambitious renewable targets have all been missed.

AP

Even if the windmills are built, they will not in themselves plug the

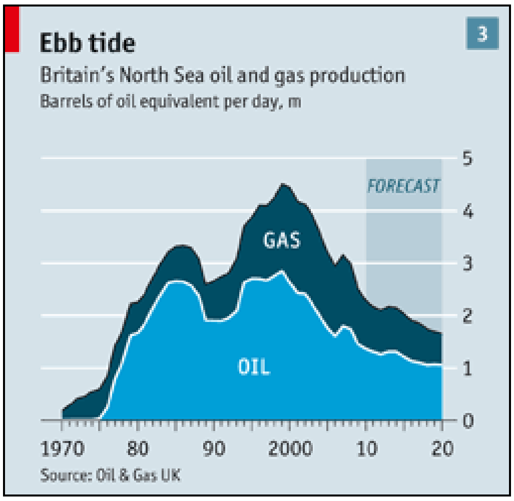
generation gap because they do not generate power on a calm day. National Grid reckons that compensating for that uncertainty of supply will require a huge amount of over-engineering. 25GW of wind power, it reckons, would be worth only around 5GW of fossil-fired generation.

Safely out of anyone's backyard

Since coal is too dirty, nuclear plants are too slow to build and renewables are of only limited use, investors are turning towards more gas plants, encouraged by rollercoaster power prices that make planning long-term and expensive projects difficult. Gas plants are cheap to build (though expensive to run), so they seem ideal for a market with a murky future, like Britain's. The first sizeable new power station in Britain for half a decade—built in 2008 at Langage, near Plymouth, by Centrica, a big energy firm—is gas-fired, and there are plenty of others on the drawing board. The Department of Energy and Climate Change reckons that three-quarters of the fossil-fired power stations already planned are to run on gas.

The trouble is that Britain already gets 46% of its electricity from gas; over half of its houses use it for heating and cooking. That is a legacy of Britain's North Sea wealth, which for three decades provided all the energy the country could possibly consume. But the golden goose is showing its age: North Sea production peaked in 1999 and has since been falling faster than all but the gloomiest foresaw (see chart 3).

That leads to worries about security of supply. "The best way to have a secure energy system is to have lots of different fuels," says Mr Constable. "It's hard to see how a system that's two-thirds gas-fired fits that definition." In a gas-dominated system, power providers would be unable to hedge easily against changes in the gas price, which tends to shadow the notoriously volatile oil price. Firms can simply pass on price increases to their customers, but voters are unlikely to appreciate unpredictably gyrating bills.



That nice Mr Putin

Other worries are political. Britain currently imports around a quarter of its natural gas, much of it from Norway; by 2015, according to one estimate from Centrica, that could rise to three-quarters. It is an open question how well Britain's laissez-faire approach will cope with the distinctly illiberal world of cross-border energy politics, but early signs are not encouraging. The reason that so little gas flowed through the pipelines connecting Britain with mainland Europe during the cold snap in 2005, when prices quadrupled overnight, is that continental firms prefer long-term contracts that make it difficult to shunt gas around quickly.

Other sources are becoming available, particularly liquefied gas shipped from the Middle East, but the worldwide market is—for now at least—immature and thinly traded, and Britain's storage capacity is limited. The more gas plants Britain builds, the likelier it becomes that, like much of the rest of Europe, it will be reliant on Russia for a lot of its gas, either directly or indirectly through agreements with continental energy firms. That is a worry: under Vladimir Putin Russia has proved itself an unreliable supplier, cutting gas to countries such as Ukraine and Belarus that have incurred the ire of the Kremlin.

All this leaves Britain in a hole. The lights are dimming, but green targets are an argument against new coal plants, security-of-supply concerns make gas dicey, lack of time rules out nuclear, and worries about practicality dog renewables.

The situation is so bad that many former fans are openly questioning Britain's hands-off approach to energy, which it has spent the past decade trying to export, particularly to Europe. Lord Browne, a well-regarded former boss of BP who now heads the Royal Academy of Engineering, wants to see state-owned banks forced to invest in renewables and has spoken warmly of the *dirigiste* policies of Tony Benn, the hard-left minister who ran Britain's energy department in the 1970s. Malcolm Wicks, who has twice been energy minister, warned Gordon Brown on August 5th that the reliance on "companies, competition and liberalisation" should be reassessed, and counselled state intervention to boost nuclear power.

It is unlikely that Britain's energy situation will ever be as dire as South Africa's, but that this should even need saying shows how disastrous things are. Something has to give, and it will probably be environmental targets. The government can simply ignore the European pollution rules and its own climate-change targets and keep coal plants open. "A decision between building a new coal plant and letting the lights go out—that's a no-brainer," admits one official. But the risk that Britain will simply run out of juice is real. Even if it doesn't, the liberal energy model for which it has proselytised long and hard is misfiring, and is in urgent need of a tune-up.

Britain, America and extradition

Trial of an alien

Aug 6th 2009
From The Economist print edition

An eccentric computer hacker is the latest subject of "fast-track" extradition

EPA

McKinnon's last stand

FOR a desperately wanted man, Gary McKinnon cuts an unassuming figure. According to American prosecutors, who appear to be on the verge of winning a seven-year legal battle to secure his extradition, Mr McKinnon carried out "the biggest hack of military computers ever" between 2001 and 2002 when, from his bedroom in London, he accessed 97 American military and NASA computers, allegedly causing $700,000 of damage. The 43-year-old, who was diagnosed last year with Asperger's syndrome, a type of autism, says he was looking for evidence of UFOs.

Mr McKinnon's impending removal has caused an outcry in Britain, which has always had a soft spot for eccentrics. But Britons are also upset at what they see as a lopsided extradition arrangement with America, whereby the bigger country can grab suspects from Britain more easily than vice versa. Post-Iraq, any hint of American bullying hits a nerve: Boris Johnson, the excitable mayor of London, spluttered that giving up Mr McKinnon would be "one of the most protoplasmic acts of self-abasement since Suez".

Extraditions between Britain and America certainly are lopsided in number (see chart). Since 2001 America has plucked 97 people from Britain and yielded only 38, though it is five times as populous as Britain. Some blame this on a change to the extradition law in 2003: whereas Britain must demonstrate "probable cause" before a suspect may be extradited from the United States, America need prove only "reasonable suspicion" before Britain will hand a suspect over. The Home Office says that these concepts are about as close as the two countries' legal systems will allow. But they are not identical: Lady Scotland, the attorney-general, has admitted that probable cause is "a higher threshold than we ask of the United States, and I make no secret of that".

In truth the imbalance may in large part reflect the fact that there are more American fugitives in Britain than there are British gangsters in America. The Home Office could not substantiate its hints that most extraditions to America are of Americans, rather than of Britons such as Mr McKinnon. But it pointed out that in its legal dealings with Spain, a notorious hangout for British crooks, Britain receives four times as many extradited suspects as it sends. The imbalance may also suggest that British prosecutors are less tenacious than their American counterparts, something that has long been asserted in the field of corporate fraud and until recently was true of drug smuggling.

Nonetheless, many worry that Britain's extradition arrangements have become too free and easy, thanks to the legal changes in 2003 that lightened the burden of proof in seeking extradition for 51 countries, including a few rather dodgy ones such as Azerbaijan. Last month Andrew Symeou, a 20-year-old Briton, was extradited to Greece to face manslaughter charges over an assault in a Greek nightclub in 2007. The evidence is sketchy; the High Court said in a ruling that the absence of any sort of investigation before such extraditions "may be a matter for legitimate debate and concern".

Another change is that Britain may now extradite a suspect to a European Union country even if his alleged crime is not illegal in Britain. Last year Frederick Töben, an Australian citizen passing through Heathrow airport, was nearly extradited to Germany to stand trial for Holocaust denial, which is illegal in

Germany but not in Britain. (The request fell through because the German warrant was faulty.) Others worry that Poland’s strict law on abortion could cause similar problems.

Mr McKinnon’s supporters say he ought to stand trial in Britain (if at all) because of his health, which would not stand up to an American trial and possible imprisonment. But the 2003 law does not allow the British courts such discretion. How times have changed: it was only ten years ago that the government decided to block the extradition of Augusto Pinochet, a former Chilean dictator, on the grounds of his supposed ill health. It is hard to escape the feeling that they let the wrong one go.

Tory parliamentary candidates

Still true blue

Aug 6th 2009
From The Economist print edition

A look at the Conservative class of 2010

SWNS

Dr Wollaston, the people's choice

AMONG the supposed inadequacies of David Cameron's project to remodel the Conservative Party has been the absence of a "Clause Four moment". But if the Tory leader has not picked a fight with his party quite as symbolic as Tony Blair's rewriting of the Labour Party constitution in 1995, his efforts to make his parliamentary party less old, less white and less male have been almost as incendiary.

Recent weeks have yielded some high-profile rewards. Chloe Smith, 27 years old, won a by-election in Norwich North on July 23rd to become the youngest MP of any party. On August 4th Sarah Wollaston, a doctor and political neophyte, was selected in an open primary to contest Totnes, in south-west England, for the Conservatives. Many women on Mr Cameron's original "A-list" of favoured candidates, such as Margot James, Andrea Leadsom and Priti Patel, had already been chosen for winnable seats.

Yet three years after the first A-list was drawn up—there have been new versions since—the drive to change the make-up of the party still causes huge consternation. Some want Mr Cameron to go further, arguing that women still struggle to secure the safest Tory seats. Others grumble that his determination to recruit women has led to neglect of other under-represented groups, such as ethnic minorities. People from humble social backgrounds are particularly scarce among existing Tory MPs and the candidates who hope to join them. Indeed, some in the party fear that the poshness of the next intake of MPs will become a problem in the run-up to the election, which must be held by next June.

But the strongest reaction to Mr Cameron's zeal for change comes from those who think it has gone too far already. An aversion to positive discrimination is widespread in the party. The Tories' constituency associations are fiercely independent; Labour bosses have a much easier time "parachuting" favourites into plum seats. Of the candidates in the Tories' 220 target seats, only a quarter were on the original A-list. There is little enthusiasm for all-female shortlists, the blunt instrument employed by Labour to boost its number of women MPs.

The diversity of Tory hopefuls—there is likely to be the biggest influx of new Conservative MPs in decades—is one thing. Their ideology is quite another. Surveys of candidates in target seats by Conservative Intelligence, a new research group devoted to illuminating the inner workings of the party, reveal quite traditional views. Almost all support recognising marriage in the tax system and 85% want a lower time limit for abortion. This social conservatism is matched by right-wing views on taxing and spending: two-thirds want inheritance tax abolished and more want defence protected from spending cuts than any other area. Almost half would be comfortable with Scotland going independent, however—a stunning figure for what is still the Conservative and Unionist Party.

The candidates, the first to be selected in the Cameron era, do show some signs of being shaped by their leader's views. Two-thirds wanted same-sex civil partners to be afforded the same rights as married couples, and many wanted health care to be immune from austerity measures. Yet the suspicion that Mr Cameron's softer conservatism is shared by few beyond his inner circle is hard to shake.

Many of the candidates who are "modernisers" may be too young to be fast-tracked to high office, including Ms Smith. The Labour government has been around for so long that new entrants in 2001 and even 2005 have worked their way into the cabinet. The next Conservative government may not be in office long enough to be galvanised in quite the same way.

Women and the financial crisis

Of bankers and bankeresses

Aug 6th 2009
From The Economist print edition

Anything you can do, I can do better

WOULD the financial crisis have been less severe if women had been running the show? Harriet Harman, Labour's deputy leader, thinks so. "Somebody said that if it had been Lehman Sisters, instead of Lehman Brothers, there might not have been as much difficulty," she pointed out this week. (That "somebody" is Neelie Kroes, the European Union's competition commissioner, who likes to put this about in speeches.) Ms Harman also thinks her party should change its rules so that either its leader or its deputy leader must be a woman. "Men cannot be left to run things on their own," she told a newspaper.

The "Lehman Sisters" fancy assumes that women are less risk-taking, less obsessed with money and status and generally less full of themselves than men, and so would have had more sense than to respond to the flawed incentives that brought down the financial system. This implies that women differ so much from men that they are unlikely to make the same choices about where to work, or what to do with their lives. It is not an idea that normally meets with Ms Harman's approval. Much of the equality bill that she is shepherding through Parliament only makes sense if you believe that differences in outcomes between men and women—or white and black people, or gay and straight ones—are *prima facie* evidence of discrimination.

As for balance between the sexes in political jobs, it is the essence of discrimination that inferior candidates from one group are preferred over more qualified ones from another. But using quotas to right this wrong does not ensure that better people get chosen—and does mean that members of the erstwhile minority will forever be assumed to have been selected for reasons other than merit. Much better to win a spot fair and square—like Ms Harman, in fact, who beat a number of men to Labour's deputy leadership in 2007.

On August 3rd Oxford University published an "egalitarian index" of 12 developed countries, based on research into attitudes to the sexes, housework and child-care responsibilities. It showed no empirical link—in any direction—between sex equality and susceptibility to the financial crisis. Most equal were Sweden and Norway, both of which look set to weather the recession comparatively well. Next came Britain and America, both heavily implicated in the crisis; Ireland, in desperate straits, ranked in the middle. Australia, one of the few countries with solvent banks, came last.

Rebuilding the banks

Falling short

Aug 6th 2009
From The Economist print edition

The gap between banks and the real economy continues to perplex

ERIC DANIELS, the chief executive who nearly a year ago pitched his perfectly good bank, Lloyds TSB, into a shotgun marriage with a really bad one, HBOS, unveiled big losses for the first half of this year on August 5th. They totalled £4 billion for the newly combined Lloyds Banking Group, with provisions of £13 billion for dubious debts. But there is some comfort in the notion that the problem is at least contained, supported by the government's 43% stake in the group.

More help for the bank is in theory coming from the new asset-protection scheme: the state will underwrite 90% of further losses on around £230 billion of the worst assets after Lloyds has borne the first 10%. Five months after the scheme was first announced, its details are still being thrashed out with Lloyds and another candidate, Royal Bank of Scotland. RBS, which is 70% government-owned, is expected by analysts to report losses on August 7th of at least £2 billion, with bad-debt provisions of around £7 billion.

Mr Daniels, unrepentant about his rash merger, nevertheless seems eager to get back to the good old-fashioned prudence that made Lloyds TSB dull but successful. Some £200 billion of assets will be run off in the next five years. The European Commission has given warning that the group's share of the mortgage and deposit markets, 27% and 24% respectively, may be an uncompetitive by-product of state aid. It could make the bank shed more business.

The banking industry as a whole is looking a bit less volatile, though Northern Rock, bailed out in 2007, reported a loss of £724m for the first half, up from £585m a year earlier. Three other banks, however—Barclays, HSBC and Standard Chartered—had surging profits, though these were mostly earned abroad or in global markets.

That leaves the government pondering just what the link is these days between banks and the real economy. The Bank of England has spent £125 billion since March on quantitative easing (pumping money into the system by buying gilts and a few other securities) but has seen little change in either the yield on government debt or bank loans to non-financial firms. Figures published on August 4th show that lending to manufacturers actually shrank in the three months to June for the fourth quarter running, as it did to the wholesale and retail trade. The only real growth was in banks' loans to bank-holding companies (ie, themselves), and in home loans.

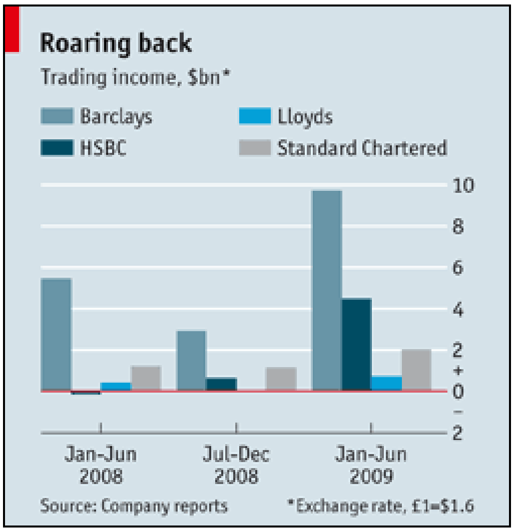
Individual bank balance-sheets tell the same story. Loans to British manufacturers shrank by well over £2 billion at both Barclays and Lloyds during the first half of the year. Other sectors did not fare much better. Barclays and HSBC increased their British mortgage books by £6.0 billion and £6.7 billion, respectively, but Northern Rock, which in February pledged to add £14 billion of home loans over two years, had lent less than a tenth of that by July.

A big chunk of Barclays' and HSBC's profits came from trading, mainly in foreign exchange, commodities and interest-rate instruments (see chart). They made them, moreover, while taking more risks. The earnings are bound to please shareholders, and it may also please the government to see the country's biggest banks adding capital and reserves. But how sustainable these profits are is not clear.

The need to find big profits somewhere may hasten a new rush into risky lending in the British market. No British bank is making much money there at the moment. The British business of Banco Santander of Spain, with profits up 41% on the first half of 2008, is doing well, but HSBC's profits in Britain halved and Barclays'

British retail and commercial banking profits also fell. Although there are some signs that the recession is bottoming out, corporate defaults are expected to increase.

Against this background, the decision of the Bank of England's monetary-policy committee on August 6th to extend quantitative easing by another £50 billion is a sign that it is not persuaded by tentative signs of economic recovery. But just pumping in more money may be a waste of time.



Britons airborne

Damp squib

Aug 6th 2009
From The Economist print edition

Ryanair, and the death of the barbecue summer

“THREE fine days and a thunderstorm”: Charles II’s description of a British summer holds true today. A heatwave at the start of July following an unusually sunny June had weathermen predicting a “barbecue summer”. With sterling weak, “staycationing”—or holidaying in Britain—took off. Then the storms hit. The Met Office confessed it had got its forecast wrong.

As British Airways (BA), on July 31st, blamed low passenger numbers for a big first-quarter loss, Britons were unwittingly doing their best to help, rushing to get airborne and avoid the rain. Lastminute.com reported that overseas flight bookings had increased by 20% over seven days. The Association of British Travel Agents said its members were seeing similar increases.

The surge seems to have caught Ryanair, surely Britons’ least-favourite budget airline, unaware. On August 1st only 11 check-in desks were open at Stansted airport to handle 255 flights. As a result more than 700 passengers missed their planes. In the confusion armed police had to protect the staff of Ryanair (or “Riot-air”, as one passenger put it) and others from irate travellers.

Is air travel poised to recover along with the economy, or are the British falling out of love with flying? Price counts for much. Ryanair reported a 13% increase in passengers in June compared with a fall of 4.9% for classier BA, though customers complain that Ryanair treats them like “cattle”. In a desperate race to the bottom, BA is now proposing to cut both prices and “frills” such as lunch on its short-haul flights, while Ryanair, digging deep, threatens to charge passengers for using the lavatory once they are on board.

None of this adds to the glamour of air travel. In 2007 research funded by Silverjet, a now-defunct airline, found that flying from Heathrow was more stressful than being mugged. Willie Walsh, BA’s boss, admits some travellers have switched from short flights to trains, which, with no elaborate security checks, are less hassle and often cheaper.

Lord Adonis, the transport secretary, wants to push all short-haul travellers on to (as yet non-existent) high-speed trains. “If God had intended us to fly he would never have given us the railways,” quipped Michael Flanders and Donald Swann in the 1950s. Airlines might ponder this timeless truth.

Economist.com WORLD INTERNATIONAL

Egypt and global Islam

The battle for a religion's heart

Aug 6th 2009 | CAIRO
From The Economist print edition

In an ideological contest between radicals, populists and moderates, speaking out can still carry a heavy personal cost

AP

WHICH trend will prevail among the world's 1.4 billion Muslims—violent confrontation or peaceful coexistence? Will Islam aspire to political power, or will more mystical or pietistic versions of the religion win out? People whose job is to wrestle with those questions, be they theologians or strategists, always keep a close eye on Egypt: the home of Sunni Islam's greatest university, al-Azhar, and the country where political Islam, in many different forms, was incubated.

And the good news, from Islam-watchers in Egypt, is that the appeal of the most violent kind of Islamist radicalism has been waning for some time. That decline is also noticeable in many neighbouring countries—and indeed in most Muslim places, apart from bloodstained peripheries like Pakistan's Swat Valley.

It is not just Osama bin Laden who has been holed up in remote exile. His ideology of global jihad has also retreated. Stung by public disgust with nihilist terror, and seeing the radicals' failure to consolidate tangible gains, some prominent preachers of endless *jihad* have repented their ways.

Jihadist ideology has also been facing what may prove to be bigger threats than those posed by military setbacks or defections. Clerics from the broader ideological mainstream of Islam, where most Muslims put themselves, are condemning nihilist extremism with greater boldness.

Also, at the opposite end of the spectrum, there are Muslim doubters, revisionists and reformers, who have had to mute their voices for fear of being branded apostates. Some of them are again speaking out, though it still takes a lot of courage.

If ultraradicals are in retreat, and bold moderates are finding their voice, that reflects several converging factors. There is a fading of the anxiety, which reached a peak under the Bush administration, that Islam itself was the target of a concerted Western campaign. Barack Obama's outreach to Muslims, and America's intent to withdraw from Iraq, have reduced the pressure on clerics to posture as tough defenders of the faith who excuse jihadism. Also, the spread of freer media in some places has

emboldened modernisers and exposed a wider public to their thinking.

The strongest recent critique of global jihadism has come from a figure who is himself controversial in the West: Yusuf al-Qaradawi, an 82-year-old Egyptian who lives in Qatar, and a familiar figure, through his broadcasts, to Muslims across the world. He is a canny, theologically conservative populist, whose scathing references to Jews and homosexuals have made him persona non grata in America and, as of 2008, Britain.

The range of reactions that Mr Qaradawi evokes is vast. At a meeting of Muslim scholars in Istanbul last month, he was idolised, outshining establishment figures from several countries. People queued to have their photographs taken with him and gushed with delight when he regaled them with songs during a boat trip. But for sceptical Western observers of Islam, his justification of suicide attacks in Israel makes him an odious figure.

The author of scores of books, the sponsor of a popular Islamist website, and the star of religious programming on the Arabic-language al-Jazeera satellite channel, Mr Qaradawi takes full advantage of his scholarly stature and his bully pulpit.

In a hefty new book, titled "The Jurisprudence of Jihad", Mr Qaradawi restates his belief in the right of Muslims to resist "aggression", and "foreign occupation". But he castigates al-Qaeda's notion of global *jihad* as "a mad declaration of war on the world" that seeks to "drive believers shackled towards paradise". Repeating his call for a "middle path", away from either defeatism or destructive zeal, Mr Qaradawi suggests that the best arena for today's *jihad* may be the "realm of ideas, media and communication."

Within Islam, these are not new positions: most mainstream clerics blasted the 9/11 attacks, even as they praised "resistance" in Iraq, Palestine and other conflicts seen as pitting Muslims against alien invaders. But coming from Mr Qaradawi, they put a seal of orthodoxy on the rejection by many ordinary Muslims of all-out worldwide jihadism. Guerrillas inspired by al-Qaeda may fight on in the wilds of Afghanistan, Somalia, Yemen and Algeria, but in the slums and universities that once supplied fodder for *jihad*, fashions are trending elsewhere.

For some Muslims, the rejection of global *jihad* has led to a more individualistic, pacifist fundamentalism that emphasises "Islamic" behaviour in everyday life. But personal piety has been growing for a generation, and some are jaded by it; they are looking for new ideas.

Significant, in this light, is the recent award by Egypt's culture ministry of a prize to one of the country's most combative secularist writers, Sayed al-Qimani. The Egyptian authorities would hardly have dared to offer such a prize a decade ago. Beleaguered then by Islamists and a tide of public piety, the ostensibly secular government was prone to posing as a defender of orthodoxy. Book bannings, charges of blasphemy, and death threats against secularists (one of which, against the writer Farag Foda, was carried out by Islamist militants in 1992) all served to silence criticism of the conservative line.

Mr Qimani, the pugnacious son of a provincial cleric, has himself been subjected to death threats, to the point where, fearing for his safety, he publicly repented of his purported sins in 2005, and abandoned writing for some years. Several of his dozen books, most of which are daringly revisionist accounts of early Islamic history, have been banned at al-Azhar's orders, despite Mr Qimani's protests that he remains a believer, albeit of a relatively non-doctrinaire sort.

globalvoicesonline.org

Qimani, eyes nervously on the prize

Predictably, the prize has left Islamists fuming, with several filing lawsuits demanding that it be rescinded. Mr Qimani says his life is once again in danger, after a chorus of denunciations from several different strands of Egyptian Islam, ranging from establishment clergy to radical ones.

Such threats have worked in the past, most notoriously in the case of Nasr Hamed Abu Zeid, a Koranic scholar who fled Egypt after a court decreed him divorced from his wife, on grounds that his revisionist views rendered him an apostate, and therefore ineligible to be married to a Muslim woman. Yet so far the government has stood unusually firm on Mr Qimani's side, partly because intellectuals have rallied to his defence, but perhaps also in a sign that it senses growing public impatience with the

Islamists' cries of blasphemy. More unusually still, Mr Qimani has been invited to air his views on television, including on one programme where he challenged any cleric to an open debate. None took up the offer.

In a land where pious words saturate airwaves and canonical texts fill bookshelves, the prominence of relatively secular types like Mr Qimani marks a trend.

Their following may be tiny compared with the adulation enjoyed by Mr Qaradawi. But it may be that on his declared *jihad*-ground of modern communications, the preacher will be facing not infidel crusaders, but fellow Muslims who want change and refuse to be intimidated.

To hear an interview on this subject with a British imam, Usama Hasan, go here

A bold Muslim voice

From harsh terrain

Aug 6th 2009
From The Economist print edition

We should love heretics, not kill them, says an unconventional scholar

ON THE face of things, Sudan is stony ground for Islamic reformers. It is a country where allegations of apostasy—departing from Islam, or merely straying slightly from the received interpretation of the faith—have often been deployed as a lethal weapon in political power struggles. In 1985 a leading opponent of the regime was hanged after a court declared him to be an apostate. In recent years Sudan's best-known Islamist, Hassan al-Turabi, has been decried as an apostate by certain greybeards, simply because he dared to suggest that men and women were equal.

But that is not the whole story of Sudan and Islam. That country has also produced a passionate advocate of the view that you can be a faithful Muslim while also supporting the right of more than one reading of the faith to exist.

Abdullahi an-Na'im is now a law professor at Emory University in Georgia—and when he returns to his native Sudan, it is as an American passport-holder. That is just as well, given what he practises and preaches.

For theocrats, the professor says, "heresy charges have always been an easy way out, a way to explain difficult problems." And, one might add, to eliminate difficult people. Last year, he co-organised a conference (in Atlanta, a city that calls itself "too busy to hate") that was provocatively devoted to the "Celebration of Heresy".

"Dissident views are healthy for the religion," he insists. "To keep the religion honest, it is very important that somebody should take the risk of being denounced as heretical."

And if anybody (in America, at least) applies the H-word to him, he does not mind: "Only God can judge that—so let me take my chances with God." In any case, he insists that his liberal reading of Islam is closer to the roots of the faith than the theocrats' interpretations are.

In its core theology, he maintains, Islam is radically democratic; for example, it is an important principle that no earthly or religious authority can come between the believer and God. The problem is simply that "sociologically, the world of Islam is conservative." He is trying to break that mould.

Economist.com WORLD INTERNATIONAL

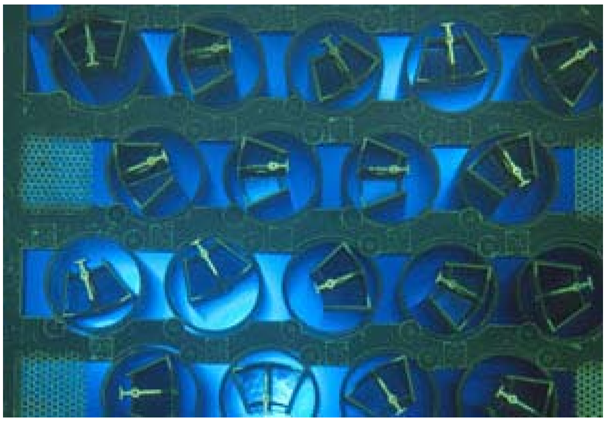
The trouble with nuclear fuel

Struggling to hold up a bank

Aug 6th 2009
From The Economist print edition

When narrow national interests obstruct a noble cause

Alamy



Rods that glow in the dark

PAVED it may be with good intentions, but there are many twists and pot-holes along the road to a nuclear-free world. So many, in fact, that the path, tantalisingly opened up by Barack Obama, may yet turn out to lead nowhere.

But to keep things minimally on track, governments that care about the spread of the bomb will make a big effort to shore up the Nuclear Non-Proliferation Treaty (NPT) at next year's five-yearly review. The Obama administration, unlike its predecessor, talks of ratifying the test-ban treaty. America and Russia are busy cutting warheads. Nuclear officials from America, Russia, Britain, France and China will meet in London next month to explore ways to build confidence for future disarmament.

Yet all will be in vain unless better ways can be found to deal with a practical problem as old as the nuclear age: how to stop nuclear technologies that can be used legitimately for making electricity from being abused for bomb-making. Efforts to tackle it are in a muddle.

Sheer numbers are one problem. Governments from Asia and the Middle East to Africa and Latin America are queuing up to get into the nuclear business, though the financial crisis will probably stop some of them. Of those that press ahead, the worry is that not all will be looking merely for alternative ways to keep the lights on.

The failure to stop countries like North Korea and Iran from bending and breaking the nuclear rules has not helped. Although they had lived with Israel's bomb for years, Arab governments' interest in nuclear power seemed to go critical suspiciously quickly as concerns mounted about Iran's nuclear ambitions. Meanwhile North Korea, it was discovered, had secretly been helping Syria to build a nuclear reactor ideally suited for weapons purposes, until it was bombed by Israel two years ago.

North Korea never tried hard to disguise its plans, and now doesn't bother: it claims to have tested two bombs in the past three years and to be building more. But Iran personifies a more insidious problem: that of separating civilian from military nuclear technology—and intentions.

Iran says its nuclear work is peaceful, and notes that the NPT promises access to civilian nuclear power for all who honour it (theoretically all countries save India, Israel and Pakistan which never signed, and North Korea which cheated and left). That includes sensitive nuclear technologies, says Iran, though the NPT doesn't specify.

It has the dubious honour of being the only country to have built a uranium-enrichment plant and to be developing plutonium-reprocessing technology without having a single working nuclear-power reactor that could use either. That set off alarms, because a country that has mastered making low-enriched uranium for reactor fuel just has to spin its machines in different formation to produce the high-enriched stuff for a bomb; plutonium can be extracted from nuclear wastes and expensively reused in special sorts of fuel, but it can also be fashioned into the fissile core of a weapon. And instead of throwing open all doors to inspectors from the International Atomic Energy Agency (IAEA), the UN's nuclear guardian, Iran has stymied them and ignored calls from the UN Security Council to stop its suspicious work.

In order to dissuade others tempted to follow in Iran's nuclear footsteps, some governments have been working on ways of enticing them down obviously peaceful paths. These have included ideas for "fuel assurances", so that countries do not feel the need to invest in the most sensitive fuel-making technologies, and also nuclear co-operation agreements.

One such agreement between the United States and the United Arab Emirates (UAE) is due to enter into force in October. America hopes it will be a model of good practice for others too. Called a "123 agreement", after the relevant bit of America's nuclear export-control laws, it will allow the UAE to buy some American nuclear equipment. In return, the emirates promise not to acquire proliferation-sensitive enrichment or reprocessing technologies and to co-operate closely with the IAEA.

Yet as a model the deal is far from perfect, argues Henry Sokolski of the Nonproliferation Policy Education Centre, in Washington, DC: no one bothered to ask UAE officials to accept the most up-to-date, near-real-time surveillance cameras, though they probably would have agreed. That would have helped strengthen future 123 agreements with Jordan, Saudi Arabia, Qatar and others. What is more, says Mr Sokolski, there appears to have been no effort to get France and Russia, both bidding for contracts in the UAE and elsewhere in the region, to adopt similar standards.

That is one chance lost. But the Obama team may have done itself no favours either by agreeing to open early talks with India, under a controversial 123 deal negotiated by the Bush administration. This will eventually allow India to extract plutonium from spent reactor fuel of American origin. India, which has never signed the NPT, does not yet have any American-built reactors, let alone the spent fuel from them to reprocess. America is creating a muddle by giving India such rights now, when it is telling Iran than it should suspend its work and others that they had better not start.

A quiet change

In the confusion, few will have noticed that the Obama administration has dropped its predecessor's plans to restart commercial plutonium reprocessing—because it makes no economic sense, even for rich America, and is a proliferation risk.

For most countries, uranium enrichment makes no economic sense either, since reactor fuel can be bought from suppliers in Europe, America and Russia. As added reassurance, the IAEA has been developing ideas for a fuel bank of last resort. Some 30 countries, including America, have chipped in the cash, and Kazakhstan has offered to host it. A country that broke non-proliferation rules would be denied fuel. But if it was refused nuclear fuel for no good reason it could buy some from the IAEA at market prices (though this would still somehow have to be fabricated into fuel rods). Russia, Germany, Britain and Japan have also offered ideas of their own.

But in this area, it seems that no good idea goes unpunished. Hopes that more detailed work could start on the fuel-bank plan were shot down at a meeting of the IAEA's 35-member board in June. Certain countries (Australia, Canada, South Africa, among others) have reserves of natural uranium and might like to profit from enriching them before exporting them. They do not want any restriction on such technologies to get in their way. Resentment and suspicion still linger, too, especially among developing countries, at the Bush administration's initial plan (later abandoned) to impose such a restriction.

The proposals being discussed at the IAEA explicitly acknowledge countries' "rights" to nuclear technology. Yet other rows have erupted. The IAEA's fuel bank would be open to all its members, but that would offend Egypt, which wants Israel excluded. A Russian plan would in effect be limited to NPT members, so offends India. But if muddle and jealousy win out, nuclear proliferation, not restraint, will be the norm—to enduring regret all round.

Economist.com BUSINESS

Big drug firms embrace generics

Friends for life

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From The Economist print edition

Big pharmaceutical firms are learning to love their erstwhile enemies, makers of generic drugs

Alamy

ONE recent evening, the most powerful man in the world posed an existential question to those around him. “If there’s a blue pill and a red pill, and the blue pill is half the price of the red pill and works just as well, why not pay half the price for the thing that’s going to make you well?” Thus Barack Obama captured one of two powerful global trends forcing pharmaceutical giants to look for a new business model.

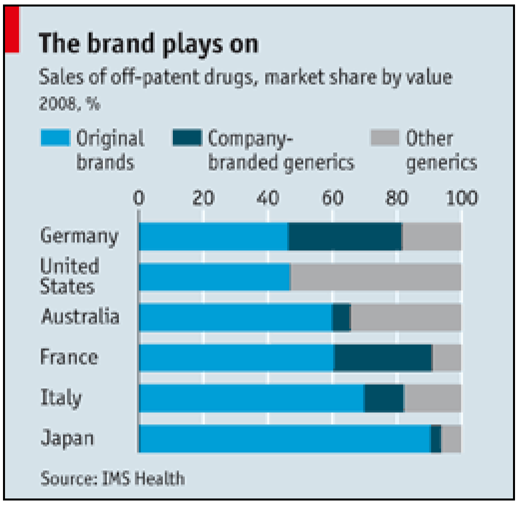
Cost-conscious governments everywhere are bashing pricey patented drugs even as they boost cheap generics. In the past few weeks regulators in America and the European Union have announced separate crackdowns on anti-competitive practices, including “pay-for-delay” deals, whereby big drugmakers pay generics firms to delay the launch of competitors to drugs coming off patent. From Japan to Germany, governments are liberalising drug markets, sweeping away barriers to generics.

This pressure from above comes just as the bottom is falling out. A record number of drug patents expire over the next few years, which should lead to stiff competition from generics and a collapse in prices. Evaluate Pharma, an industry consultancy, estimates that about half of the $383 billion-worth of patented drugs to be sold in the world this year will lose patent protection within five years. In 2010 alone the industry will see nearly 15% of its revenue from patented drugs put at risk. Where competition from unbranded generics is fiercest, for instance in America, the price of a given drug falls by more than 85% within a year of patent expiry.

Big drug firms used to turn their noses up at the generics business, but the assault on their profits has forced them to think again. In many rich countries and most poor ones, they are managing to avoid calamitous drops in revenue by peddling “branded” (but not patented) versions of their original drugs for higher prices than unbranded generic equivalents. Illogical though it may seem, such is the power of brand loyalty and inertia among doctors and patients that these branded generics often help the firm losing the patent retain half or more of the market, in value terms, even after generic competition is legally permitted (see chart).

Several pharmaceutical companies have gone further and bought generic-making rivals. That can speed up a move into branded generics. But most important, it helps drug giants gain better access to emerging markets—one of the few bright spots in an otherwise bleak outlook for the industry. Jeff George, head of Sandoz, a large generics firm owned by Novartis, a Swiss drugmaker, is convinced that the lure of those growing markets is

unleashing an “entirely new dynamic”. According to IMS Health, another consultancy, the seven biggest emerging markets will account for more than half of the industry’s total sales growth this year. By 2012, it reckons, nine of the top 20 markets will be emerging economies. Sandoz recently reported that its sales in the six biggest such markets were 14% higher in the first half than they were a year ago, while sales in Europe edged up by barely 3%.



Most big Western firms are already present in these countries, selling their patented products. But that is not enough, argues Satish Reddy, chief operating officer of Dr Reddy’s Laboratories, an Indian generics firm. The real action now is in branded generics, which command a premium in many emerging markets due in part to the fear that unknown products might be fake or of dubious quality. He argues that by joining with local generics firms, multinationals can get “cheap access to the middle class” in these markets.

His arguments were well received by GlaxoSmithKline (GSK), a British drug giant, which struck a deal in June to have Dr Reddy’s make a portfolio of inexpensive drugs that GSK will sell as branded generics in the many countries in which it already has a sales force. Only the month before GSK had acquired 16% of Aspen, a South African maker of generics. GSK’s Abbas Hussain says that this new strategy aims to “build new product portfolios of quality branded medicines which we can combine with GSK’s existing extensive sales and marketing.”

Other drug giants have been making similar moves. Earlier this year Sanofi-Aventis, a French company, bought both Medley, Brazil’s biggest generics firm, and Zentiva, a big purveyor of generics in eastern Europe. The most striking deals have involved Pfizer, a conservative giant not known for cosiness with upstart generics firms. In May it said it was entering licensing deals with Claris LifeSciences and Aurobindo, both Indian generics firms. Pfizer’s David Simmons even says that “generics are not the enemy of innovative pharma any longer”. Rather, he insists, firms once derided as copycats and scofflaws should be seen as essential allies in entering new markets.

Will these alliances of convenience really last? The inevitable clash of cultures is a potential difficulty. Sigurdur Olafsson, chief executive of Actavis, an Icelandic generics firm, says that as a former Pfizer man he remains sceptical. “Generics firms need to be nimble and aggressive,” he observes. And litigious too, he reckons: “Will one of these hybrid firms really be willing to challenge the patents of a rival pharmaceutical firm?”

Sandoz’s Mr George insists there is no such cultural clash, only “a healthy debate of siblings” between his firm and its owner, Novartis. He points to his firm’s aggressive entry into the nascent market for “biosimilars”, which are the generic equivalents of biotechnology drugs, as proof that firms like his need not be toothless.

Atul Sobti, boss of Ranbaxy, an Indian generics firm bought last year by Daiichi Sankyo, a Japanese pharmaceutical giant, offers a different reason for scepticism. His concern is not culture but rather the coming cash crunch. The generics business faces “phenomenally high cost pressures”, he explains, not least because “some government somewhere will always be ready to chop prices.”

Governments will surely continue to turn the screws on drug prices. Even so, argues Charles-Andre Brouwers of the Boston Consulting Group, drug firms need not despair. In many parts of the world consumers pay for drugs at least partly out of their own pockets, rather than being subsidised by the state or having an insurer bear the cost. He reckons that their brand loyalty—or laziness—is something drug marketers can tap to keep a premium in their prices. As he puts it: “The secret about this industry is that patients taking a red pill don’t really like switching to a blue pill.”

Economist.com BUSINESS

Uganda's oil rush

Derricks in the darkness

Aug 6th 2009 | KAMPALA
From The Economist print edition

A series of discoveries heralds a new oil province

Alamy

The start of a stampede

TULLOW OIL, an Anglo-Irish exploration firm, announced on August 4th that it had struck oil while drilling in Uganda near the shores of Lake Albert. It was the tenth discovery in the area. Indeed, oil firms do not seem able to drill a well in Western Uganda without hitting the stuff. That part of Africa had long been seen as something of a wasteland by oilmen. But now an oil rush is under way.

Tullow and Heritage, an Anglo-Canadian firm, own the most promising drilling rights in Uganda. The pair also hold rights on the Congolese side of Lake Albert, but these have been the subject of much dispute with the government in Kinshasa.

James Arnold of Tullow says there are 700m barrels of proven reserves on the Ugandan side. With likely additions from further exploration, he believes, the figure could eventually reach billions of barrels. Some speculate that, Congo included, the entire Albertine basin may yield even more than Sudan's 6 billion barrels of proven reserves.

The find has been transformational for Tullow, turning it from a bit player in the North Sea into one of the largest independent exploration companies in Europe. The company has always had an interest in Africa and made a big find off the coast of Ghana in 2007. Mr Arnold says Tullow is ambitious to exploit offshore blocks in Côte d'Ivoire and Liberia as well. “Tullow holds the most exploration licences throughout Africa of any oil company,” says Thomas Pearmain, an analyst with IHS Global Insight, a research and data firm. It is now an obvious takeover target for a big Western oil company or an ambitious Asian state-owned firm.

Within a few years Uganda could be producing 100,000-150,000 barrels a day (b/d). But where will it go? Some might be used to generate electricity, of which Uganda is desperately short. That could put an end to persistent blackouts and boost local manufacturing, which has withered on unreliable and exorbitantly priced electricity. The country's president, Yoweri Museveni, has made it clear he wants a big refinery built. The oilmen politely disagree, arguing that east Africa's economy can absorb only a fraction of the petrol and other products a full-sized refinery would turn out. They would prefer a much smaller facility, consuming perhaps 30,000 b/d, with the balance being pumped across neighbouring Kenya to the Indian Ocean.

Mr Pearmain points out that Ugandan oil is waxy, and so likely to solidify in a pipeline unless heated. Building such a pipeline will cost at least $1.5 billion. Iran has offered to invest, and has been advising Mr Museveni's government. America, too, says it is willing to help. But China seems the likeliest investor. Speculation is rife that Mr Museveni will sign an agreement with one of China's acquisitive state-owned oil firms at an Africa-China summit in November. Meanwhile, in Kenya, which has long lorded it over its poorer neighbour, exploration firms keep drilling dry holes, to Ugandans' delight.

Regulating executive pay in America

Knotting the purse-strings

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Congress embarks on its latest attempt to rein in corporate excess

Illustration by David Simonds

WASHINGTON'S politicians have relished the many chances to fulminate against reckless executives presented by the economic crisis, and to restrain them with regulation. Congress took advantage of the bail-out to impose caps on bonuses paid by banks taking money from the state. The uproar over bonuses paid to executives at American International Group, a rescued insurer, prompted further legislation. And on July 31st the House of Representatives took up the subject again, passing a bill that would regulate pay at all listed firms—especially big financial ones.

The bill, which has yet to be approved by the Senate, would introduce two big changes. First, it gives shareholders the right to vote each year on pay packages for executives, including "golden parachutes" for those who leave. Second, it allows regulators to assess whether pay practices at financial institutions with assets of $1 billion or more are likely to encourage risk-taking so excessive that it threatens the stability of the financial system. If so, the regulators can demand changes.

The bill also requires members of compensation committees of boards of directors to be independent, formalising what is now standard practice. Consultants hired by boards to advise on executive pay must also be independent. Rather belatedly, the bill orders America's comptroller-general to study whether there is a connection between compensation structures and excessive risk-taking.

Barack Obama championed a "say on pay" for shareholders long before he became president. It would bring America into line with Britain, which made it a legal requirement in 2002. Yet unless institutional shareholders make the most of their rights, getting a vote may not make much difference. There is a danger that they will simply outsource the hard thinking about pay to advisory firms such as RiskMetrics, says Jeffrey Gordon of Columbia Law School. This may encourage the sort of herd mentality that produced the widespread and disastrous enthusiasm for paying bosses with share options, he says. Worse, some advisory firms work as consultants for boards as well as coaches for shareholders, so may have conflicts of interest similar to those that have undermined the effectiveness of auditors and credit-rating agencies.

The British experience is telling, argues Mr Gordon in a recent article. There are hardly any votes against compensation packages at British companies. (The same has also been true at the handful of American firms that have introduced a vote on pay in recent years.) That may be because shareholders and managers reach agreement before votes are held. But America's more diffuse shareholding structure makes such understandings harder to achieve, he says. Moreover, as in Britain, the shareholder vote will only be advisory, and can be ignored by management. In May 59% of voting shareholders of Royal Dutch Shell, an oil giant, rejected the executive pay package for 2008, but the company intends to pay it anyway—though it lamely promised to consult shareholders more closely in future.

As for big financial firms, the bill would allow regulators to review how incentives are structured under their pay practices. But they would not be privy to the amounts paid or the identities of the recipients. That might insulate them from the political pressures heaped on Kenneth Feinberg, the "special master" appointed by Mr Obama to prevent inappropriate pay at firms that have received help from the taxpayer. Angry citizens want Mr Feinberg, who is expected to rule soon on bonuses at various financial firms, to veto pay-outs such as the $100m bonus for Andrew Hall, an oil trader at Citigroup, even though he seems to have earned it the old-fashioned way, by doing his job very well.

The bill faces an uncertain future in the Senate, where it may get lost amid more sweeping financial reforms. Then again, senators enjoy railing against corporate fat cats as much as the next politician.

The SEC fines GE

Magic numbers

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American regulators find fault with a corporate icon

GENERAL ELECTRIC (GE) has built its reputation as the world's leading conglomerate on two pillars: its ability to meet or beat analysts' expectations every quarter, come rain or shine, and its ability to produce first-rate leaders. An embarrassing deal with the Securities and Exchange Commission (SEC) on August 4th tarnished both.

The SEC had accused GE of bending "accounting rules beyond breaking point" in order to avoid disappointing results on four occasions in 2002 and 2003. The "rule bending" boosted GE's earnings by more than $780m and its revenues by $370m. One alleged violation involved changing the way it accounted for hedges. Another involved treating yet-to-be-completed sales of locomotives as done deals.

The sums involved were small beer for a behemoth like GE. The company, which neither admitted nor denied the charges but promised to do better in future, agreed to pay fines of $50m, a quarter of the $200m it paid in legal and accounting fees to deal with the charges. GE's stock actually rose following the announcement, driven upwards by relief that the investigation was finally over.

But the deal nevertheless raises worrying questions about the company's ability to "hit the numbers"—and reap rewards from the market for doing so. GE's shares lost more than half their value last year, largely because of the poor performance of its financial services arm, GE Capital. The unit is on the mend, thanks to billions in government-guaranteed debt and the revival of asset prices. But the news that GE's leadership was willing to bend the rules over relatively tiny sums may well disconcert investors and analysts.

The ruling was widely taken as a sign that the SEC would be more aggressive under its new head, Mary Schapiro. It issued 224 formal orders of investigation in the first six months of this year, compared with 93 a year before. It has also asked for a 20% boost to its budget. This week alone it reached a $33m settlement with Bank of America of charges that BofA had misled investors when acquiring Merrill Lynch (see article), and promised to crack down on "flash orders", a controversial method of showing information on exchanges. Magic numbers may be harder to produce in the private sector from now on.

MediaTek and mobile-phone chips

Fabless and fearless

Aug 6th 2009 | HSINCHU, TAIWAN
From The Economist print edition

How a Taiwanese firm became one of the world's fastest-growing chipmakers

MOST technology firms fall into one of two brackets: those that sell individual components, such as Intel, a chip giant, and those that offer finished products, such as Apple of iPhone fame. MediaTek sits somewhere in between: it sells most of the innards of mobile phones in a single package, but not the phones themselves—a strategy that has made it one of the world's fastest-growing chipmakers. On August 4th it said its second-quarter profits were 80% higher than a year before, at NT$9.16 billion ($277m).

Imaginechina

The many guises of the chipset

Although no household name, MediaTek makes products used by most consumers in rich countries. The Taiwanese firm is a "fabless" chipmaker, meaning that it only designs its chips, while subcontracting production. It started life in 1997 making chips for CD-ROM drives, and eventually took to building the brains of all sorts of consumer devices. Today MediaTek is the leader in these markets, equipping more than 50% of DVD players, for instance.

Yet these have become commodity businesses with low margins. So in 2004 MediaTek expanded into higher-value territory by making the bundles of chips, or "chipsets", on which mobile phones rely. Being a latecomer, the firm opted to sell processor-, radio- and other sorts of chips together with the necessary software. This "total solution" makes it much easier for phonemakers to produce handsets.

MediaTek's technology has revolutionised the manufacture of mobile phones in mainland China. A handset firm there used to need 20m yuan ($2.9m), 100 engineers and at least nine months to bring a product to market. Now 500,000 yuan, ten engineers and three months will do. As a result, Chinese handset-makers now number in the hundreds. Many churn out *shanzhai* (or "bandit") phones: knock-offs of established brands, labelled "Nckia" or "Sumsung". Others are true innovators, making handsets with big speakers or with two slots for SIM cards, so that one handset can be called on two different numbers.

This has thrust MediaTek's revenues from $1.2 billion in 2004 to nearly $2.9 billion in 2008, when it sold about 220m chipsets to China. It became the world's third-biggest fabless chipmaker by revenue in the first quarter of this year, behind America's Broadcom and Qualcomm.

So far MediaTek only makes chips for low-end phones. Other developing countries, which already import 40% of all handsets made in China, are a huge opportunity, says Jon Erensen of Gartner, a market-research firm. But the firm is even more ambitious: later this year it will start selling technology for smartphones. Whether MediaTek can compete with Qualcomm and ST-Ericsson, Europe's new champion for wireless chips, remains to be seen. Of the well-known handset brands only LG, a South Korean electronics giant, sells phones with MediaTek chips inside.

A more fundamental question is to what extent the industry structure spawned by MediaTek's chipsets and software in China will spread across the globe. Lawsuits will thwart blatant knock-offs in rich countries. All the same, the barriers to entry for new handset-makers are getting ever lower. And Western consumers like variety as much as Chinese ones.

India's struggling airlines

Flight to value

Aug 6th 2009 | NEW DELHI
From The Economist print edition

Airlines in India are stalling under the weight of high taxes and overcapacity

"FLY the good times," urges the slogan of Kingfisher airlines. But for India's commercial-aviation industry, these are far from good times. On July 31st the Federation of Indian Airlines (FIA) threatened a one-day strike to put pressure on the government to save its seven members from going bust. As the government mulls a bail-out for one of them, the moribund state-owned Air India, the FIA is demanding that it also help privately owned airlines by lowering taxes on jet fuel, which are especially high in India. In response, the government warned airlines against inconveniencing passengers and offered talks. The FIA said it would put the strike, scheduled for August 18th, "on hold".

Until recently India's private-sector airlines, which carry more than 80% of domestic passengers, were lauded as a symbol of the country's spectacular economic growth. But growth began to stall in 2007, when rapidly rising fuel prices pushed up fares and the economy slowed. In the first half of this year, airline passenger numbers fell by 8% to 21.1m. Last year India's aviation industry lost more than $2.5 billion—about 25% of total world airline losses despite accounting for only 2% of global traffic. This year is set to be as bad.

For Kingfisher and its main competitor, Jet Airways, both full-service carriers, times are especially tough. Kingfisher, which reported a net loss of 2.43 billion rupees ($51m) in the quarter to June, owes more than 9.5 billion rupees in unpaid fuel bills and is surviving on bank loans. Jet Airways recorded a net loss of 2.25 billion rupees in the same period.

High fuel costs certainly exacerbate Indian airlines' woes. Fuel tax is set by most of India's states at 28%, whereas in much of the rest of the world aviation fuel is untaxed. The airlines want it to be declared an "essential commodity", making it eligible for tax at 4%. A handful of states, most recently Rajasthan, have cut jet-fuel taxes to 4% in a bid to encourage airlines to establish local services. But others, including two of the most important, Maharashtra (home to Mumbai) and Delhi, are reluctant to follow for big airports: the tax is a valuable source of revenue out of which fuels used by the poor, such as kerosene and diesel, are subsidised.

But burdensome though the taxes are, they are not the only reason why India's private airlines are suffering. Over-capacity should take much of the blame. "India's airlines grew too big, too fast," says Binit Somaia, of the Centre for Asia Pacific Aviation, a research firm. Anxious to chase market share, the airlines priced tickets well below cost. By some estimates, they bought twice as many aeroplanes as the market could support. As competing airlines poached pilots and mechanics, staff costs soared. "It was all about ego rather than business," says Captain G. R. Gopinath of Air Deccan, a low-cost airline.

Today those egos are badly bruised and, in line with trends elsewhere, it is low-cost airlines that are taking an increasing share of the market. Of India's three listed airlines, a budget carrier, Spicejet, was the only one to turn a profit in the most recent quarter. The other two are Jet and Kingfisher. Fighting back, Jet launched a no-frills subsidiary, Jet Konnect, in May; last year, Kingfisher took over Air Deccan to create Kingfisher Red. The budget carriers are hoping to ride the economic downturn by offering better value to corporate travellers. But in the longer term they are eyeing a much bigger opportunity: the 98% of Indians who have never flown.

Economist.com BUSINESS

Germany's flawed corporate governance

Boards behaving badly

Aug 6th 2009 | BERLIN
From The Economist print edition

Why the leading citizens of corporate Germany are so scandal-prone

Illustration by David Simonds

THE streets of Germany's main cities still throng with shoppers; no shops are shuttered. Much credit for that is due to the country's famed industrial champions, which have been model corporate citizens throughout the recession, keeping employees on the payroll and investing for the long-term. Yet many of them are also remarkably scandal-prone. Big companies such as Deutsche Bank, Deutsche Telekom, Deutsche Bahn and Lidl have been caught spying on workers, journalists or board members. Siemens has confessed to bribing customers and MAN is being investigated for the same. At Volkswagen, a manager was caught paying off a member of its supervisory board. Schaeffler and Porsche are in trouble after launching murky, ill-conceived takeovers involving derivatives and mountains of debt. Yet these two seemingly contradictory aspects of German corporate behaviour may be opposite sides of the same coin.

One reason why Germany's biggest firms have not cut many jobs is its cherished model of stakeholder capitalism, which took root after the second world war and contributed to its rapid economic growth until the 1980s. Under this model, workers' representatives fill half the seats on firms' supervisory boards. A separate management board is responsible for running the business day to day. Companies are also required to act in the interest of all "stakeholders", not just of shareholders.

That creates a tension between profits and jobs. A seminal, if dated, study is illustrative. It found that 83% of German managers surveyed in 1995 considered that the companies they worked for belonged to stakeholders rather than shareholders. Some 60% said that saving jobs was more important than paying dividends. In America and Britain, by contrast, almost 90% of managers said that paying dividends was more important than preserving jobs and 75% of managers felt that firms belonged to their shareholders.

Many Germans see this focus on stakeholders as a strength. Germany's Governance Commission, an official watchdog, decided earlier this year that German corporate governance had "proved its worth during the current crisis". Involving employees in hard decisions about restructuring can help in a downturn. Firms such as Daimler have cut working hours and pay, with the support of their employees. And IG Metall, Germany's main industrial union, is in talks with several troubled firms about pay cuts for its members in exchange for shares.

German firms are renowned for taking "long-term" decisions. Even as revenues have plunged, Germany's big carmakers, for instance, have kept up spending on research and technology. "Workers' representatives tend to be very entrepreneurial," says Walter Friederichs of Russell Reynolds Associates, a recruitment firm. "They want to preserve the company for the future."

Yet Germany's system of corporate governance also lends itself to bad behaviour. One problem is the composition of Germany's supervisory boards: a study of Germany's biggest listed firms by Russell Reynolds found that on average their board members were older, had longer tenure, were less likely to have specific industry experience and were far less likely to be foreign than in Europe's other big economies. German supervisory boards are also often unwieldy, with up to 20 members. When the firm's management is included, meetings run to 30 people.

A second problem is the preponderance of family-controlled firms. That leads to a focus on the relationship between minority and controlling shareholders, rather than on the control that shareholders as a whole exercise over managers, says Matteo Tonello, a corporate-governance expert at the Conference Board, a think-tank.

Weak oversight of firms, private and public, may have contributed to the recent troubles of leading German firms that have allowed strong mangers or controlling shareholders to take on too much risk, says Jörg Rocholl of the European School of Management and Technology in Berlin. One such example is Porsche, which for years resisted demands from the stock exchange to publish quarterly reports (it argued they would reflect badly on it during slow quarters). It is now being taken over by Volkswagen, its erstwhile target in a drawn-out takeover battle, after buckling under the weight of debt and derivatives it took on in a bid to wrest control of VW.

In many other countries, failings of corporate governance can often be addressed from the outside by shareholders pressing for change or taking over companies that are performing poorly. But in Germany this sort of activism is restrained by the absence of large, independent institutional investors and by the limited powers granted to activist investors.

Much has changed in Germany since the days of Deutschland AG, when banks and big firms had complex cross-holdings that prevented hostile takeovers. Even so, scepticism about shareholders' role in holding managers to account is still deep seated, says Hans Hirt, head of corporate governance at Hermes, a British fund manager with investments in Germany.

Hedge funds and private-equity firms are barely tolerated. After activist shareholders led by the Children's Investment Fund, a London hedge fund, forced Deutsche Börse to abandon its bid for the London Stock Exchange in 2005, the government passed laws making it harder for minority shareholders to push reforms. Christopher Hohn, who runs the fund, was labelled a "locust" for his aggressive tactics, and has since given up trying to change the company. Few Germans are likely to do battle in his stead.

Economist.com BUSINESS

Face value

A question of trust

Aug 6th 2009
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Guiding Peugeot-Citroën through the recession will be hard. Philippe Varin must get along with the owners

AFP

IN APRIL the Peugeot family, which controls 45% of the voting stock of PSA Peugeot-Citroën, finally got its man. Nearly three years ago, after Jean-Martin Folz decided to retire early from running Europe's second-biggest carmaker, Thierry Peugeot, the chairman of the group's supervisory board, made a concerted attempt to woo Philippe Varin as Mr Folz's successor.

Mr Peugeot knew what he was looking for: an experienced industrialist with an international outlook and a record of undertaking difficult turnarounds. Mr Varin seemed ideal. After a 25-year career at Pechiney, a big French aluminium manufacturer, Mr Varin had been hired in 2003 to sort out Corus, a troubled Anglo-Dutch steelmaker. In three years he had recapitalised a business that was almost worthless on his arrival, restructured the British half of the firm, returning it to profit, and apparently healed the divisions between British and Dutch managers.

Peugeot, for its part, was basically a sound company, but had been drifting for a few years. The firm was too reliant on just three models and its popular light vans. The average age of its line-up had risen to 4.2 years, elderly by the industry's standards. Margins and market share were slipping, as was the quality of Peugeot's vehicles—especially compared with those made by the relentlessly ambitious Volkswagen Group.

Tempting though the offer to spruce up one of France's most important companies must have been, it came at a bad time. Mr Varin was near the end of the search for a partner that would give Corus the scale he believed it needed to prosper in an increasingly global market. After seeing off a late bid by CSN, a Brazilian steel firm, Tata Steel ended up paying £6.7 billion ($13 billion at the time) for Corus, an inconceivable price before Mr Varin's arrival. But Ratan Tata, the patriarchal boss of the Tata Group, had made it clear that a condition of the deal was that Mr Varin stayed. Mr Varin says the choice was simple: "I had given Ratan my word."

When Mr Peugeot decided that the time had come to remove Christian Streiff, the bullish manager PSA had hired in Mr Varin's stead, he was not put off by Mr Varin's earlier rejection. Far from it: the demonstration of loyalty had made him all the more attractive. Meanwhile, Mr Tata had offered Mr Varin a senior post in the Tata empire, but Mr Varin had declined, being unwilling to move his family to Mumbai. Although Corus was undergoing the pain of a wrenching cyclical downturn in demand for steel, Mr Varin felt he could leave with honour.

Peugeot was one of Corus's biggest customers. But Mr Varin is new to the car industry, which is itself nearly a year into one of the most brutal crises in its history. Partly for that reason, he has so far struck a note of caution in outlining the changes he intends to make at Peugeot, sticking to the cost-cutting plans that were being implemented by Mr Streiff until his dramatic exit (the firm will shed 11,000 jobs this year). Last month Mr Varin presented results for the first six months of 2009. They were predictably awful in most respects: the car business lost €1.3 billion ($1.7 billion). Yet there was a pleasant surprise in the form of a much better cash position than the market was expecting, owing to the timely slashing of inventories and a €3 billion loan from the French government in exchange for keeping open factories in France that might otherwise have been threatened with closure.

Given that Mr Varin seems reluctant to deviate much from the path set out by his predecessor, it is worth asking why Mr Streiff was so unceremoniously fired. Among Mr Streiff's achievements, he speeded up the introduction of new models, which has stabilised Peugeot's market share in Europe, and created a promising premium sub-brand for Citroën. But for all his dynamism, Mr Streiff is not much good at "managing up". In 2005 he fell out with Jean-Louis Beffa, his boss at Saint-Gobain, and a year later he lasted only 100 days in the hot seat at Airbus after rowing with the board of EADS, the aircraft-maker's owner. It is widely believed that the Peugeot family tired of Mr Streiff's autocratic ways and penchant for confrontation.

In Mr Varin, the Peugeots have a manager who is just as steely but whose approach is more inclusive. Whereas Mr Streiff would take umbrage at any perceived interference from the family-dominated supervisory board, the unflappable Mr Varin is tactfully enthusiastic about working with the Peugeots who, he says, bring with them a strong set of values, like Mr Tata. Among those are stability and a willingness to stick with a long-term vision. He adds: "I have what I asked for, which is to run the business, to deliver value and to maintain independence."

Family matters

The issue of independence is one that will not go away. Compared with Renault and Fiat, for example, Peugeot is large enough—in a "normal year" it produces about 3.5m vehicles—to generate reasonable economies of scale and it is good at spinning multiple products off the same platform. Mr Varin says that he is open to deepening existing alliances with BMW, Ford, Fiat and Mitsubishi, but he is cool about a full-scale merger with another carmaker. History, he says, shows how difficult cross-border mergers in the car industry are and he doubts whether consolidation—the main reason for attempting such a deal—is politically possible in Europe.

Mr Varin's views chime, naturally enough, with those of the Peugeot family. But if something more radical is required in the future, will Mr Varin be allowed to show the boldness he displayed at Corus? Much will depend on Mr Varin's ability to manage the relationship with the Peugeots, and the Peugeots' handling of him. A succession of able executives who have worked for two other great automotive dynasties, the Agnellis of Fiat and the Ford family, know the pitfalls only too well. In the end, it always comes down to trust—on both sides. Mr Varin has it for now, but keeping it will not be easy.

Offshore private banking

Bourne to survive

Aug 6th 2009
From The Economist print edition

Despite the woes of UBS, Swiss private banking remains in reasonable shape

Illustration by S. Kambayashi

AFTER visiting his bank in Zurich, Jason Bourne, an amnesic assassin, wonders: "Who has a safety-deposit box full of money and six passports and a gun?" In the popular imagination as well as Hollywood films the answer is clear: customers of Swiss banks do.

If this reputation for skulduggery is right, Switzerland, home to about one-quarter of the world's offshore money, is in big trouble. After nearly going bust, UBS, its biggest bank, is now being pistol-whipped by America's Internal Revenue Service (IRS), which wants it to hand over the names of tens of thousands of alleged tax dodgers. A preliminary settlement between the two was agreed on July 31st, although its details have yet to be made public. In March Switzerland agreed to comply with an OECD tax code that will oblige it to reveal information on clients that other governments say they need to enforce their laws. Where will crooks, despots and war criminals go now? And what will Swiss private banks do when they leave?

Put those questions to Swiss bankers and they will explain—very smoothly, of course—that you are decades out of date. They are calm in part because the concessions on privacy are expected to be limited. Both the OECD code and, they hope, the UBS settlement will endorse the principle of "no fishing expeditions". Foreign states would have to provide clients' names and some evidence of wrongdoing before getting information on them. Even if the IRS remains on the warpath and goes beyond the OECD rules, perhaps only 5% of the $2 trillion of offshore assets in Switzerland comes from America.

For the bulk of customers, Swiss bankers claim, tax is in any case not the main draw. They marshal some surprisingly good arguments. UBS has been haemorrhaging funds, with an outflow of SFr30 billion ($28 billion) so far this year (see chart). But the country's next four biggest listed banks, Credit Suisse among them, have had private-bank inflows of SFr31 billion. Clients have fled a bank, not a country. Perhaps one-third of offshore funds in Switzerland are from places where the wealthy may not pay much tax anyway, including Russia and the Middle East. They are mainly in Switzerland for its political stability and well-run banks.

More vulnerable are the roughly 40% of assets gathered from the traditional hunting grounds of high-tax European countries, in particular Germany and Italy. Tax relations between Switzerland and the European Union have been fairly cordial—a limited agreement on co-operation in 2004 allows client confidentiality. Things could get more fractious, though. Germany has beaten up tiny Liechtenstein over secrecy. Italy and Britain are proposing tax amnesties to attract money back home. “We are emptying the cave of Ali Baba,” says Guilio Tremonti, Italy’s finance minister. But even if money leaves Switzerland, it may not leave Swiss banks. When Italy last held a tax amnesty in 2003, an astonishing 80% of the funds taken out of Credit Suisse returned to it as clients opened accounts with its Italian operation. Today, many private banks are building up their European operations to help mitigate the impact of any new amnesties.

Finally, as Swiss bankers point out, “there is nowhere else to go”. All mainstream offshore banking centres have committed themselves to the OECD rules, as have exotic upstarts such as Liberia and Brunei. Some argue that Hong Kong and Macau may become the destinations of choice for tax evaders. They are, it is said, less likely to enforce the OECD rules or to kowtow to foreigners. But the flip side for customers may be higher political risk. The offshore centres of the future will probably be politically stable, with good legal systems and firms and a strategy of non-confrontation with big economies on tax. Stefan Jaecklin of Oliver Wyman, a firm of consultants, reckons that Singapore and Switzerland are most likely to fit the bill. Indeed, emerging-market banks continue to set up in Switzerland. Recent arrivals include firms from Brazil and China.

If a tax-related exodus from Switzerland seems unlikely, business is hardly plain sailing. Fewer people are getting very rich. Margins are under pressure as clients shy away from buying complex bull-market products. In response private banks are expanding into emerging markets and consolidating at home, says Huw van Steenis of Morgan Stanley. Zurich-based Vontobel has bought Commerzbank’s Swiss operation, for example. There are similar pressures in Germany, where Deutsche Bank is mulling taking a minority stake in Sal Oppenheim Jr & Cie.

That still leaves one outstanding thorny question: whether the modern trend to stick private banks together with riskier investment banks and hedge funds still makes sense. In theory, being a conglomerate makes it easier to meet rich people and create complex products to tempt them with. In practice, it can scare them off. The crisis has “vindicated the traditional Swiss model,” says Nicolas Pictet, a partner at Pictet & Cie. Julius Baer, another medium-sized bank, sold its institutional stockbroking arm in 2003 and is now spinning off GAM, its volatile hedge-fund operation.

Of the two giant conglomerates, Credit Suisse is in rude health and maintains its investment bank is helping to boost its private bank’s margins. By contrast, on August 4th Oswald Grübel, the boss of UBS, reported yet another loss at its investment bank and cautioned that client outflows would continue. Reputation, he said, is crucial to the private-client business. Like other Swiss banks, UBS is not keen on having assassins as customers. Amnesiacs are a different matter.

Economist.com **FINANCE & ECONOMICS**

Buttonwood

Short of ideas

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From The Economist print edition

The rights of shareholders and the wrongs done to clients

Illustration by S. Kambayashi

“ONE person, one vote” is an accepted principle, in Western democracies at least. But the idea of “one shareholder, one vote” has still not been fully implemented, particularly in continental Europe. In terms of shareholder democracy, Britain is one of the more advanced countries. Now Lord (Paul) Myners, a Treasury minister, has suggested a move in the opposite direction. He argues that institutional shareholders are too inclined to sell their stakes in underperforming companies, instead of getting involved with the management to try to improve matters. The answer could be to reward long-term shareholders with extra votes (or to penalise the short-termers by restricting their voting rights).

But are two-tier shareholding structures a good idea? Historically, they have been associated with family-run companies, which wanted to raise money without surrendering control. A system that granted shareholders extra votes for accepting a long-term horizon could easily lead to a world of unaccountable boards, protected by entrenched shareholders from the danger of potential dismissal or takeover. You could easily imagine a system, like Japan in the 1980s, of corporate cross-holdings in which managers protect each other from the investing barbarians outside the gates.

Lord Myners’s proposal has been presented as an attack on “short-termism” but it muddles several different problems. One is the principal-agent divide in which managers act against the interests of their institutional owners (who in turn may be acting as agents for beneficiaries such as pension-fund members).

In theory, as the owners of the company, shareholders should be able to keep executives under control. But in America and elsewhere, shareholders may not (yet) have the right to vote on issues such as pay; even when they can express their opinions, their votes may be ignored. Executives seem to regard investors like small children, who should be seen and not heard. Individual institutions that want companies to change policy have to spend time and money in negotiations that may not be justified by the potential gains. In any case, those gains will accrue not just to the campaigners but to other, “freeriding” shareholders who have done nothing.

A second issue is whether companies’ interests are aligned with those of society. The Myners proposal appears to assume that shareholders are wise enough to prevent corporate excess, in terms of pay packages or risk-taking. But there was little sign that shareholders in investment banks were urging them to retreat from subprime assets earlier this decade.

A third question is whether the economy would perform better if the relationship between executives and investors changed. This idea has been a feature of left-wing politics for at least the past 80 years. In Britain the Labour government of 1929-31 commissioned the Macmillan committee to investigate this point. In 1997 a conviction that companies paid out too much to shareholders, instead of investing in expansion, caused Gordon Brown, then the British finance minister, to scrap the tax credit on dividends, a change that took money away from occupational-pension funds.

But can it really be right that an obsession with dividends, or with short-term returns, has held back the corporate sector? In the late 1990s there was no sign that technology or telecoms start-ups were lacking in capital, even though they were unlikely to pay dividends for years. Venture-capital funds, which back start-up companies and pay no income, were hugely popular. In this decade, private-equity fund managers have gathered billions even though investors who back such funds have to lock their capital

away for up to ten years.

It is true that professional investors tend to hang on to their shares for a lot less time than they used to. Figures from Société Générale show that the average holding period of a stock on the New York Stock Exchange fell from ten years in the 1940s to nine months by last year.

But if anyone suffers from the short-termism of fund managers, it is the clients. Funds with the highest costs produce the lowest returns, as client money is absorbed in charges and bid-offer spreads. Figures from Lipper, an information provider, show that between the end of 1994 and the end of 2008 the equity funds in the lowest quartile for costs returned 7.24% a year; those in the highest quartile returned just 4.65%. If governments really want a scandal to attack, it is the way the finance sector enriches itself at the expense of retail investors.

Bank of America

Heirs and cases

Aug 6th 2009 | NEW YORK
From The Economist print edition

A thundering herd of possible successors eye up the boss's job

KEN LEWIS continues to grip the helm at Bank of America, insisting that he is "the one most capable of getting us to the other side". The storm-tossed lender will reach port eventually but Mr Lewis's chances of being the one who leads the crew onto dry land are weakening fast. On August 3rd BofA agreed to pay $33m to settle a complaint filed by the Securities and Exchange Commission (SEC) alleging that it misled investors over bonuses at Merrill Lynch as BofA was finalising its takeover of the securities firm in late 2008.

Seen initially as a strategic coup, the Merrill acquisition quickly soured. In part that was because Merrill accelerated $3.6 billion of bonus payments even as it spiralled towards a $27.6 billion annual loss last year. The SEC complaint charges BofA with pulling the wool over investors' eyes. In public documents related to the acquisition, the bank stated that Merrill would not pay discretionary bonuses without BofA's approval, and that such payments were "not required by any current plan". In fact, BofA had already authorised bonuses of up to $5.8 billion. This was mentioned only in a separate document that was not disclosed to shareholders before they voted on the deal on December 5th.

The SEC's findings support claims by John Thain, Merrill's former boss, whom Mr Lewis sacked in January over the bonus brouhaha, that the purchaser was closely involved in determining the payments. Mr Thain was once thought of as a natural successor to Mr Lewis. A management shake-up this week has brought a new crop of pretenders into sharper focus. Sallie Krawcheck, a former Citigroup high-flier and Wall Street's woman-in-chief, has been hired to run the wealth-management division and is now one of five internal candidates for the top job. Another is Brian Moynihan, the new head of BofA's giant consumer bank.

Mr Lewis will hope that the reshuffle buys him time to make a dignified exit once BofA has repaid its $45 billion of federal aid. But the settlement is a big personal black mark and speculation is growing that he will be forced to step aside in coming months. The SEC and others (including Andrew Cuomo, New York's bank-bashing attorney-general) are still investigating whether BofA should have revealed more about Merrill's ballooning losses. Even the bonus fiasco is not yet fully behind it: on August 5th a judge refused to approve the settlement, questioning the basis for the agreed sum and calling a hearing for August 10th.

Mr Lewis has done himself no favours by talking the talk, but not walking the walk, on a subject close to the heart of the Obama administration: mortgage modifications. BofA has been the slowest of the big banks to ease the terms of its loans, the Treasury revealed on August 4th. Only last month Mr Lewis declared that any bank "that hasn't gotten deadly serious" about modifications "needs to get with the programme immediately". His own failure to do so will irk the officials in Washington who wield such power over his bank.

Mr Lewis's best shot at redemption is to make sure that the takeover of Merrill pays off. The integration is making better progress, thanks partly to the efforts of Tom Montag, who (of all things) ran Merrill's most toxic bits before the merger. His reward for smoothing the process and working to keep its best people from leaving is an expanded brief and—perhaps before the year is out—a shot at Mr Lewis's job.

Measuring growth from outer space

Light relief

Aug 6th 2009
From The Economist print edition

Data about light emitted into space may help improve growth estimates

AP

HOW rapidly did Equatorial Guinea's GDP grow between 1975 and 1999? According to the latest version of the Penn World Table (PWT), the most comprehensive source of figures about countries' GDP since 1950, the answer is 4% a year. But the data in the 2002 version suggest an annual rate of -2.7%. As Arvind Subramanian, an economist who worked on the sums, points out, Equatorial Guinea may therefore have had the second-fastest economy in Africa. Unless, that is, it was the slowest.

This may be an extreme case but the PWT reckons that data for all 43 sub-Saharan African countries have margins of error of 30-40%. Much of this is due to the underfunding and overstretching of their statistical agencies. Some researchers have tried to use things like changes in electricity consumption as proxies for GDP growth. But these numbers also come from official agencies.

In a new working paper, Vernon Henderson, Adam Storeygard and David Weil of Brown University suggest an alternative source of data: outer space. In particular they track changes in the intensity of artificial light over a country at night, which should increase with incomes. American military weather satellites collect these data every night for the entire world.

It is hard to know exactly how much weight to put on extraterrestrial brightness. Changes in the efficiency of electricity transmission, for example, may cause countries to look brighter from outer space, even if economic activity has not increased much. But errors in its measurement are unlikely to be correlated with errors in the calculation of official GDP, since they arise for different reasons. A weighted average of the growth implied by changes in the intensity of artificial light and official GDP growth rates ought to improve the accuracy of estimates of economic growth. Poor countries in particular may have dodgy GDP numbers but their night-light data are as reliable as anyone else's.

Take Myanmar's economy, which grew at an official but improbable 8.3% a year in the ten years to 2003; adjusting for brightness suggests a more modest 5.8%. But night-light data suggest that official figures may be understating growth in places like Tajikistan or the Congo, perhaps because of rising informal economic activity.

Reforming finance: Derivatives

Naked fear

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From The Economist print edition

Tougher rules are needed but may go too far. The next in our series

TIM GEITHNER has reportedly grown so exasperated with unco-operative regulators that he recently blasted them with an expletive-filled rant. Yet the American treasury secretary's worker ants continue to draft financial reforms as if nothing were amiss. The next and last proposal to be sent to Congress, any day now, covers the $590 trillion market for over-the-counter derivatives, with particular emphasis on the credit-default swaps (CDSs) that humbled American International Group. Once lauded as a way of offering protection against the risk of companies defaulting, CDSs instead magnified uncertainty as buyers wondered whether sellers could really afford to pay up if called on.

The Treasury's proposals are expected to echo a plan put forward by congressional committees on July 30th—with at least one key difference. There is broad agreement that "standardised" CDSs should go through a central clearing house, in order to reduce systemic risk when counterparties fail. If possible they should also be traded on exchanges. To encourage migration to these platforms, contracts that remain privately traded will incur much higher capital and margin charges. All market participants will have to disclose more to regulators about their positions.

Derivatives dealers can live with these changes. In contrast to the Treasury's probable plan, however, congressional leaders have also left open the possibility of banning "naked" CDSs (in which the buyer of protection does not own the underlying bond). The impact of prohibition could be dramatic: up to 80% of CDSs are thought to be naked. Marketmakers say a ban would make it harder for them to offset risks, since speculative buyers are a big source of liquidity. That could, in turn, raise borrowing costs for bond issuers, says Tim Backshall of Credit Derivatives Research.

Even if this measure is sidestepped, there are plenty of other devils in the detail. How much of the market should be "standardised"? Reducing the scope for bespoke products would make hedging more difficult for airlines, manufacturers and oil producers as well as banks. Should the number of clearing houses—which have sprouted on both sides of the Atlantic—be limited? A monopoly would be unhealthy, a multiplicity inefficient (since netting would be harder). And who will regulate what? The Securities and Exchange Commission and the Commodity Futures Trading Commission (CFTC) will oversee contracts based on securities and commodities, respectively, but some swaps straddle both categories.

CDSs are not the only members of the derivatives hall of shame. The CFTC, emboldened by bubbles in oil and gas prices to fight "excessive speculation", this week wrapped up hearings that foreshadow position limits for futures traders in energy markets. Such limits would curb the number or value of contracts a trader could hold in a particular commodity and across relevant exchanges. A trader's intent is hard to pin down, however. Index funds, for instance, do not hold commodities themselves but passively invest their clients' money in energy derivatives to hedge against inflation. And their positions are in any case regularly dwarfed by those of supposedly genuine hedgers, says Kamal Naqvi of Credit Suisse. Market insiders reckon that firms such as Shell and Lufthansa routinely trade more than their commercial needs would justify.

Position limits could also siphon liquidity away from American energy exchanges. At least one large dealer is already developing products to get around the CFTC's impending changes. That would undermine the overall goal of the Treasury's reforms. But lawmakers are not in the mood for half-measures. As Collin Peterson, head of a congressional committee that oversees derivatives, put it recently: "We clearly want to err on the side of too much regulation rather than too little, given what we've been through."

China's provincial GDP numbers

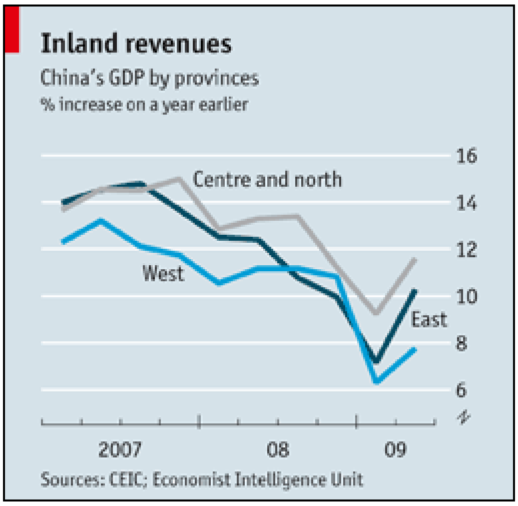
Sea change

Aug 6th 2009
From The Economist print edition

Can inland provinces keep growing faster than their coastal cousins?

THE words “Inner Mongolia” may not immediately suggest sizzling economic activity. Yet in the second quarter it was the fastest growing province in China. The country’s economic growth during most of the past 30 years has been led by its long eastern seaboard. Coastal provinces such as Guangdong, Jiangsu and Shanghai sucked in foreign investment and prospered from large export industries. But eight of the ten zippiest provinces in the second quarter lie inland. Despite some question-marks over the accuracy of Chinese GDP data, the new figures shed fresh light on provinces’ relative performance.

Higher growth in inland regions is nothing new. China’s central and northern areas quietly overtook its coastal regions in late 2007 (see chart). This partly reflects a natural catch-up effect among poorer provinces, which are able to sustain far higher investment growth. The growth gap between central provinces and those in the east widened further in the third quarter of last year as coastal cities were hit by a property slowdown. The less developed western provinces even briefly surpassed the growth rates of their coastal peers.



Since then the global downturn has arguably hit export-dependent coastal provinces harder than inland ones. In eastern provinces exports are equal to 41% of GDP; in the rest of the country they make up just 6%. Government expenditure in coastal areas has historically grown at a similar pace to that elsewhere, but the infrastructure-heavy stimulus has been skewed towards needier inland provinces.

Even so, it is unclear how much momentum the shift to inland growth really has. The share of national income claimed by central and northern provinces has grown only marginally in recent years. The contribution of western provinces has even fallen slightly, as demand for the resources in which they are rich has shrunk during the coast’s slump. Official efforts to lure manufacturers away from the coast have had mixed results. Foreign investment remains strongly concentrated in the east of the country, which accounts for 94% of China’s exports.

State-directed improvements in transport infrastructure, especially in railway networks, should encourage more companies to make the journey westward. But inland growth could also be sped up by limiting the state’s role in other areas, suggests Paul Cavey of Macquarie Securities. In coastal regions the private sector has flourished, bringing productivity gains. Away from the eastern seaboard, the state sector still dominates. Provincial barriers to trade hamper the efficient allocation of resources. Favourable treatment of local (often state-owned) firms has become more prevalent in the wake of the crisis. Removing these shackles will require a shift in local officials’ attitudes, but that will not happen overnight. The rise of China’s inland provinces will be slower for it.

Rebalancing the world economy: Germany

The lives of others

Aug 6th 2009
From The Economist print edition

The third article in our series on global rebalancing asks whether Germany can wean itself from its export dependence

Reuters

THERE was a time not so long ago when European policymakers believed trade imbalances were only a problem for America and China. For much of 2008, a stock phrase in the press statement agreed each month by the European Central Bank's rate-setters was "the euro area does not suffer from major imbalances." As the year wore on, the claim was repeated but seemed more and more desperate, as if it were a spell to ward off recession. It was only when the collapse of Lehman Brothers in September sparked a global slump that the formulation was quietly dropped.

In a narrow sense the claim was true. Until the crisis struck, the euro area's current account was roughly in balance. That contrasted with America, where a spending boom and falling savings drove the current-account deficit as high as 6% of GDP in 2006. But Europe looked steadier only because Germany's huge trade surplus offset deficits elsewhere—notably in Spain but also in France, Greece, Italy and Portugal.

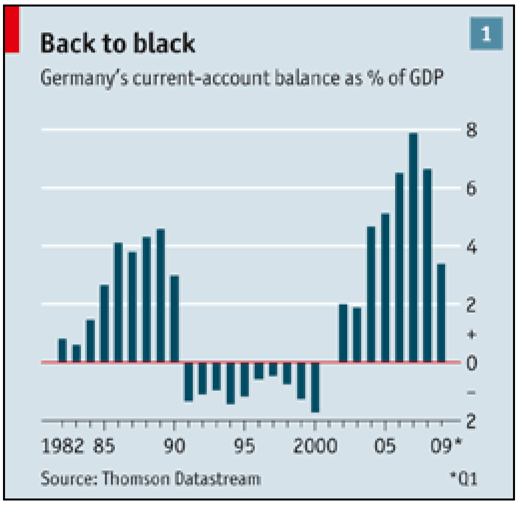
These imbalances were not trifling. In 2007 Spain had the largest current-account deficit in the world outside America. The surplus chalked up by Germany that year, at $263 billion, was second only to China's hoard of $372 billion. Germany's saving glut allowed others to spend freely and to run up large debts. Its economy benefited from strong export sales to other euro-zone countries, as well as to America and Britain. The common currency allowed imbalances to grow unchecked by fears of an exchange-rate crisis.

But the skewed pattern of demand only made recession worse when it came. The biggest slumps in demand were in Spain and Ireland, where growth had been consumer-led. The impact on output was felt most in Germany, where a collapse in exports and investment drove GDP down by 7% from its peak. The question now, with its main customers pulling back, is whether Germany can kick its export addiction and encourage more demand at home.

A rebalancing of world demand requires high-savers, such as China and Germany, to spend more and run smaller trade surpluses so that the trade deficits of countries such as America and Spain can narrow as savings are rebuilt. Recession has forced that adjustment to begin in the most painful way. Germany's current-account surplus shrank dramatically, to 3.4% of GDP, in the three months to the end of March, from 6.6% of GDP during 2008 (see chart 1). The change in its external balance has made Germany the world economy's main shock absorber, says Hans-Werner Sinn of the Ifo Institute for Economic Research in Munich.

Much of the adjustment reflects a collapse in exports. Germany specialises in machinery and durable goods, purchases that

businesses and consumers will put off when times are uncertain. It also reflects the resilience of domestic demand. German consumer spending has been broadly flat. That would count as a boom in many places where consumers are cutting back.



Fiscal policy has been a stabilising force, too. Germany's budget deficit should rise from around zero to 4% of GDP this year, and to 6% in 2010. Although it was a late convert to the need to do more, Germany's stimulus has worked well. Consumers have kept up their spending because most have held on to their jobs. A government scheme that allows firms to put underused employees on short-time working, and which subsidises their pay, has stopped unemployment rising sharply. Around 1.4m workers are on the short-time register, many of them in the depressed car and capital-goods industries. Cash incentives from government for older cars that are traded in for new ones have helped boost sales.

The short-time arrangements mean that workers stay in employment and keep their skills fresh. Firms are not panicked into laying off workers they might otherwise have to hire back again at great cost. "There is a certain accord with government to keep our core workforce intact for as long as possible," says Matthias Wissmann of the German Association of the Automotive Industry (VDA).

The drawback of the short-time working scheme is that it prevents a broader economic restructuring. When Spain's fiscal-stimulus package provided funds to build low-cost housing, it was criticised for spurring more construction in a country that had already seen too much. Germany's schemes to prop up demand for cars and car workers have the same weakness. They fossilise an industrial structure that needs to change.

Officials see these initiatives as a "bridge" over global recession and they are candid about what they hope is on the other side: a return to export-led growth. Some point out that Germany's economy cannot quickly change its orientation towards domestic demand. It has a comparative advantage in producing specialist goods that require a global market. "You cannot put power plants in the supermarket," notes one German economist. There is also widespread concern about the long-term costs of today's fiscal props for a rapidly ageing economy. Fingers are crossed that foreign demand will revive quickly so that Germany can get back to a balanced budget soon. Fine, except that it was Germany's export dependency and manufacturing bent that made its economy so vulnerable in the first place.

The presumption that what is good for exports is good for the economy partly explains why consumer spending in Germany has historically been weak. Its typical response to a faltering economy is to trim manufacturing costs, including wages, in order to keep exports keenly priced against other countries. That was the path taken in the early 1970s, when the D-mark rose after the collapse of the Bretton Woods system of fixed exchange rates. It was followed again after the 1990s when Germany's reunification boom and devaluations by some trading partners pushed up its relative wage costs.

The wage discipline was remarkable. German pay was more or less frozen for a decade from the mid-1990s, at a time when it was rising quickly in the rest of Europe. That wage restraint tilted demand in favour of exports and away from consumption. The share of employee pay in GDP drifted steadily downward until the eve of recession last year (see chart 2). So even as exports boomed and jobs were created, sluggish wages meant the gains from national income growth went mostly to profits. Consumer spending suffered, falling to a low of 56% of GDP—well below America's 70%. The increase in the rate of value-added tax (VAT), from 16% to 19%, at the start of 2007 was a further check on spending. It says something that the increase was sold as a way to boost competitiveness (VAT is a tax that hurts consumption but not exports).

This tale of export fetishism tells us how Germany looks abroad for demand to kick-start its recoveries and explains why its trade balance rises in the early phase of the cycle. But it cannot fully account for the vast and enduring current-account surpluses that Germany piled up year after year. They also reflect a persistent excess of

domestic saving over domestic investment. The share of income that households put aside has been broadly stable for years but the investment share in GDP has declined (see chart 3). That is partly because Germany's mature export industries do not have great scope or appetite to expand capacity. It is also because capital is not finding its way to new ventures.

Some analysts believe that Germany's deep-rooted preference for equality in pay lies behind both its bent for export-led growth and the seemingly endless surpluses. In this view, a welfare policy designed to maintain a narrow gap between the best- and worst-paid employees has limited the earnings of the most skilled workers across all sectors, tempting many of them abroad. This "wage compression" has also stunted the emergence of a low-wage service sector that could cater to the home market. Wage floors prop up the pay of unskilled workers and make services expensive to supply. If personal services were on tap cheaply, consumers might spend more. Since investment in service industries is less attractive the pool of domestic savings leaks abroad.

Whenever firms are reluctant to invest, economists are quick to blame "inflexible" product and job markets. It is hard to start a business in Germany: it was ranked 102nd out of 181 countries on that criterion in the World Bank's 2009 *Doing Business* survey. Such regulatory barriers stop the economy's broader industrial structure from changing. Yet within manufacturing, businesses are flexible in their use of labour and in their control of costs. Germany's small capital-goods firms are famously nimble. If exporters were too rigid, they would not be quite so successful.

That suggests the standard wish-list of reforms might not make the economy any less dependent on exports and manufacturing. Germany's export addiction has deep roots. There is a wariness about services, particularly personal services, and a pride in being the world's biggest exporter. "Why does it take so long to start a company? Why are there so few links between universities and business? We have been wedded to the export model for so long we have ceased to look for alternatives," says Thomas Mayer of Deutsche Bank.

Germany may never again run as large a current-account surplus as it did before the crisis, if only because many of its main export markets will not easily regain their former buoyancy. German makers of plant and machinery may feel they have a decent chance of bouncing back, thanks to China's state-sponsored recovery. Durable-goods manufacturers (especially carmakers) will find the going far tougher, as consumers in America, Britain and Spain struggle. If foreign demand does not fully return, jobs will go once short-time working schemes expire. The government will have to keep supporting the economy while the private sector restructures.

Cars for clunkers

A shift from export dependency to an economy that serves its own consumers better would be painful but would be good for Germany, and the world, in the longer run. Its big saving surpluses required big deficits somewhere else; the deeper Germany's customers fell into debt, the less their IOUs were worth. German banks ended up with toxic American assets because they had excess savings to recycle. When carmakers reached capacity limits at home, they used cash piles to make poor acquisitions abroad (Daimler and Chrysler; BMW and Rover).

"It made no sense for Germany to sell Porsches for Lehman certificates," says Ifo's Mr Sinn. Those loaned funds could instead have been used to finance new ventures at home. Soon many Germans will reach retirement age; they will need a richer array of services than is on offer now. As some export industries shrink, new service industries will be needed to create jobs. That may even lift Germany's long-term growth rate. The export model left Germany at the mercy of changes in global demand. Yet there was no real growth dividend to compensate for that exposure. Growth in GDP per person in the past decade has been slower than in France and well below that in Britain or America.

There is a danger that Germany takes the wrong lesson from the crisis. It could decide the episode only shows the folly of relying on finance and services to drive growth, as America and Britain have. It could simply reinforce its long-standing export bias. But thoughtful Germans may conclude that a crisis that

has created such a burden for future taxpayers stems partly from the ill use of their own savings. They may well end up wishing they had spent the money on themselves.

Video: See Germany’s persistent surpluses at: Economist.com/videographics

Economics focus

In defence of the dismal science

Aug 6th 2009
From The Economist print edition

In a guest article, Robert Lucas, the John Dewey Distinguished Service Professor of Economics at the University of Chicago, rebuts criticisms that the financial crisis represents a failure of economics

Rex

THERE is widespread disappointment with economists now because we did not forecast or prevent the financial crisis of 2008. *The Economist*'s articles of July 18th on the state of economics were an interesting attempt to take stock of two fields, macroeconomics and financial economics, but both pieces were dominated by the views of people who have seized on the crisis as an opportunity to restate criticisms they had voiced long before 2008. Macroeconomists in particular were caricatured as a lost generation educated in the use of valueless, even harmful, mathematical models, an education that made them incapable of conducting sensible economic policy. I think this caricature is nonsense and of no value in thinking about the larger questions: What can the public reasonably expect of specialists in these areas, and how well has it been served by them in the current crisis?

One thing we are not going to have, now or ever, is a set of models that forecasts sudden falls in the value of financial assets, like the declines that followed the failure of Lehman Brothers in September. This is nothing new. It has been known for more than 40 years and is one of the main implications of Eugene Fama's "efficient-market hypothesis" (EMH), which states that the price of a financial asset reflects all relevant, generally available information. If an economist had a formula that could reliably forecast crises a week in advance, say, then that formula would become part of generally available information and prices would fall a week earlier. (The term "efficient" as used here means that individuals use information in their own private interest. It has nothing to do with socially desirable pricing; people often confuse the two.)

Mr Fama arrived at the EMH through some simple theoretical examples. This simplicity was criticised in *The Economist*'s briefing, as though the EMH applied only to these hypothetical cases. But Mr Fama tested the predictions of the EMH on the behaviour of actual prices. These tests could have come out either way, but they came out very favourably. His empirical work was novel and carefully executed. It has been thoroughly challenged by a flood of criticism which has served mainly to confirm the accuracy of the hypothesis. Over the years exceptions and "anomalies" have been discovered (even tiny departures are interesting if you are managing enough money) but for the purposes of macroeconomic analysis and forecasting these departures are too small to matter. The main lesson we should take away from the EMH for policymaking purposes is the futility of trying to deal with crises and recessions by finding central bankers and regulators who can identify and puncture bubbles. If these people exist, we will not be able to afford them.

The Economist's briefing also cited as an example of macroeconomic failure the "reassuring" simulations that Frederic Mishkin, then a governor of the Federal Reserve, presented in the summer of 2007. The charge is that the Fed's FRB/US forecasting model failed to predict the events of September 2008. Yet the simulations were not presented as assurance that no crisis would occur, but as a forecast of what could be expected conditional on a crisis not occurring. Until the Lehman failure the recession was pretty typical of the modest downturns of the post-war period. There was a recession under way, led by the decline in housing construction. Mr Mishkin's forecast was a reasonable estimate of what would have followed if the housing decline had continued to be the only or the main factor involved in the economic downturn. After the Lehman bankruptcy, too, models very like the one Mr Mishkin had used, combined with new information, gave what turned out to be very accurate estimates of the private-spending reductions that ensued over the next two quarters. When Ben Bernanke, the chairman of the Fed, warned Hank Paulson, the then treasury secretary, of the economic danger facing America immediately

after Lehman's failure, he knew what he was talking about.

Mr Mishkin recognised the potential for a financial crisis in 2007, of course. Mr Bernanke certainly did as well. But recommending pre-emptive monetary policies on the scale of the policies that were applied later on would have been like turning abruptly off the road because of the potential for someone suddenly to swerve head-on into your lane. The best and only realistic thing you can do in this context is to keep your eyes open and hope for the best.

After Lehman collapsed and the potential for crisis had become a reality, the situation was completely altered. The interest on Treasury bills was close to zero, and those who viewed interest-rate reductions as the only stimulus available to the Fed thought that monetary policy was now exhausted. But Mr Bernanke immediately switched gears, began pumping cash into the banking system, and convinced the Treasury to do the same. Commercial-bank reserves grew from $50 billion at the time of the Lehman failure to something like $800 billion by the end of the year. The injection of Troubled Asset Relief Programme funds added more money to the financial system.

There is understandable controversy about many aspects of these actions but they had the great advantages of speed and reversibility. My own view, as expressed elsewhere, is that these policies were central to relieving a fear-driven rush to liquidity and so alleviating (if only partially) the perceived need for consumers and businesses to reduce spending. The recession is now under control and no responsible forecasters see anything remotely like the 1929-33 contraction in America on the horizon. This outcome did not have to happen, but it did.

Not bad for a Dark Age

Both Mr Bernanke and Mr Mishkin are in the mainstream of what one critic cited in *The Economist*'s briefing calls a "Dark Age of macroeconomics". They are exponents and creative builders of dynamic models and have taught these "spectacularly useless" tools, directly and through textbooks that have become industry standards, to generations of students. Over the past two years they (and many other accomplished macroeconomists) have been centrally involved in responding to the most difficult American economic crisis since the 1930s. They have forecasted what can be forecast and formulated contingency plans ready for use when unforeseeable shocks occurred. They and their colleagues have drawn on recently developed theoretical models when they judged them to have something to contribute. They have drawn on the ideas and research of Keynes from the 1930s, of Friedman and Schwartz in the 1960s, and of many others. I simply see no connection between the reality of the macroeconomics that these people represent and the caricature provided by the critics whose views dominated *The Economist's* briefing.

See the original articles, and further discussion, here

Economist.com SCIENCE & TECHNOLOGY

A link between wealth and breeding

The best of all possible worlds?

Aug 6th 2009
From The Economist print edition

It was once a rule of demography that people have fewer children as their countries get richer. That rule no longer holds true

Alamy

ONE of the paradoxes of human biology is that the rich world has fewer children than the poor world. In most species, improved circumstances are expected to increase reproductive effort, not reduce it, yet as economic development gets going, country after country has experienced what is known as the demographic transition: fertility (defined as the number of children borne by a woman over her lifetime) drops from around eight to near one and a half. That number is so small that even with the reduced child mortality which usually accompanies development it cannot possibly sustain the population.

This reproductive collapse is particularly worrying because it comes in combination with an increase in life expectancy which suggests that, by the middle of the century, not only will populations in the most developed countries have shrunk (unless they are propped up by historically huge levels of immigration) but also that the number of retired individuals supported by each person of working age will increase significantly. If Mikko Myrskyla of the University of Pennsylvania and his colleagues are correct, though, things might not be quite as bad as that. A study they have just published in *Nature* suggests that as development continues, the demographic transition goes into reverse.

Dr Myrskyla looked at the world as it was in 1975 and as it is now (or, at least, as it was in 2005). He compared two things. One was the total fertility rate (the number of children that would be born to a woman in a particular country over the course of her life if she experienced the age-specific fertility rates observed in that country during the calendar year in question). The other was the human development index for that country. The HDI, a measure used by the United Nations, has three components: life expectancy; average income per person; and level of education. Its maximum possible value is one.

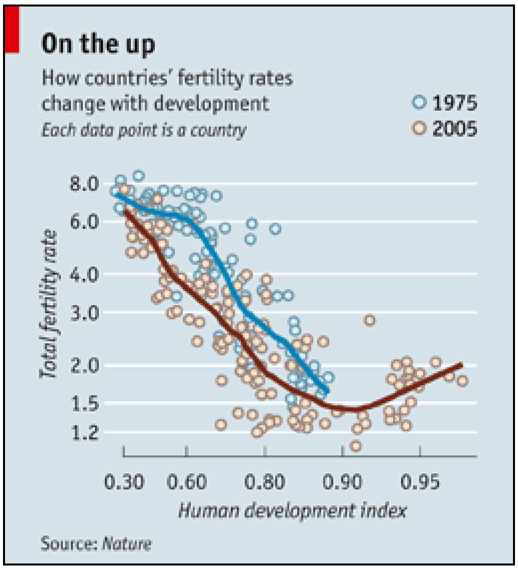
Curiouser and curiouser

Back in the 1970s, no country got anywhere near one. Of the 107 places the researchers looked at, the

best was Canada, with an HDI of 0.89. By 2005, however, things had improved markedly. Two dozen of what were now 240 countries had HDIs above nine—and something else remarkable had happened. Back in 1975, a graph plotting fertility rate against the HDI fell as the HDI rose. By 2005, though, the line had a kink in it. Above an HDI of 0.9 or so, it turned up, producing what is known in the jargon as a “J-shaped” curve (even though it is the mirror image of a letter J). As the chart shows, in many countries with really high levels of development (around 0.95) fertility rates are now approaching two children per woman. There are exceptions, notably Canada and Japan, but the trend is clear.

This result is both important and unexplained. Its importance lies in the change of assumptions that policymakers will have to put into their models of the future. The nadir of fertility appears to be 1.3 children per woman. Not every country drops that low before making the turn, but if those that do were to stay there, they would need to import immigrants equivalent to 1.5% of their population every year, for those populations merely to remain static. With the best will in the world, absorbing that many migrants would be tricky. Dr Myrskyla’s data, however, suggest the ultimate outcome of development may not be a collapsing population at all but, rather, the environmentalist’s nirvana of uncoerced zero population growth.

Why this change has come about, and why the demographic transition happens in the first place, are matters of debate. There are lots of social explanations of why fertility rates fall as countries become richer. The increasing ability of women in the developed world to control their own reproductive output is one, as is the related phenomenon of women entering the workplace in large numbers. The increasing cost of raising children in a society with more material abundance plays a part. So does the substitution of nationalised social-security systems for the support of offspring in old age. Falling rates of child mortality are also significant. Conversely, Dr Myrskyla speculates that the introduction of female-friendly employment policies in the most developed countries allows women to have the best of both worlds, and that this may contribute to the uptick.



No doubt all these social explanations are true as far as they go, but they do not address the deeper question of why people’s psychology should have evolved in a way that makes them want fewer children when they can afford more. There is a possible biological explanation, though. This is that there are, broadly speaking, two ways of reproducing.

One way is to churn out offspring in large numbers, turn them out into an uncaring world, and hope that one or two of them make it. The other is to have but a few progeny and to dote on them, ensuring that they grow up with every possible advantage for the ensuing struggle with their peers for mates and resources. The former is characteristic of species that live in unstable environments and the latter of species whose circumstances are predictable.

Viewed in comparison with most animals, humans are at the predictable-environment and doting-parent end of the scale, but from a human perspective those in less developed countries are further from it than those in rich ones. One interpretation of the demographic transition, then, is that the abundance which accompanies development initially enhances the instinct to lavish care and attention on a few offspring. Only when the environment becomes super-propitious can parents afford more children without compromising those they already have—and only then, as Dr Myrskyla has now elucidated, does the birth-rate start to rise again.

How far the process will continue, and whether it will spread to holdouts like Japan and Canada, remains to be seen. Indeed, the whole exercise is a warning of the risks of extrapolating the future from present trends. But, on present trends, things do, indeed, look hopeful.

Economist.com SCIENCE & TECHNOLOGY

The origin of malaria

As Dr Livingstone presumed

Aug 5th 2009
From The Economist print edition

Human malaria started in chimpanzees

FLPA

AGUE, tertian fever, quartan fever, paludism. Malaria has been known about since ancient times and has gone under many names. Today, it kills over a million people a year, most of them young children. Where it originally came from, though, has been a matter of scientific debate for half a century.

In 1958 Frank Livingstone, a noted anthropologist, suggested that *Plasmodium falciparum* (which is by far the deadliest of the four or five parasites that cause human malaria) had jumped into *Homo sapiens* from chimpanzees. He speculated that the rise of agriculture had led to human encroachment on wild forests, giving the chimp version of the bug, *P. reichenowi*, the chance to find a new host. A rival camp, however, argued that *P. falciparum* was a variant of *P. gallinaceum*, a parasite found in chickens.

A paper just published in the *Proceedings of the National Academy of Science* shows that Livingstone got it right. Stephen Rich of the University of Massachusetts at Amherst, Nathan Wolfe of the Global Viral Forecasting Initiative in San Francisco, and their colleagues used genetic evidence to confirm that *P. falciparum* is, indeed, an offshoot of *P. reichenowi*. And a recent one at that, as it may have hopped from chimp to human a mere 10,000 years ago—about the time, as Livingstone argued, that human hunter-gatherers were settling down on the farm.

To reach their conclusion, Dr Rich and Dr Wolfe studied the DNA sequences of malarial parasites collected from nearly 100 wild or formerly wild chimpanzees born in central and west Africa. They identified eight distinct versions of *P. reichenowi* (only one had been known before) and found that the DNA of *P. falciparum* sat nicely in the middle of all this genetic variation. Moreover, it seems to have made the jump from chimps to people only once. All *P. falciparum* parasites alive today appear to derive from an individual example of *P. reichenowi*.

All this is, of course, ancient history, but it is history with a point. Understanding how parasites leap species barriers is crucial to understanding how new infectious diseases start in humans—and an example of a recent leap was also published this week. *Nature Medicine* carried a report by Jean-Christophe Plantier of the University of Rouen and his colleagues of a new human immunodeficiency virus (HIV) detected in a Cameroonian woman. Unlike the widespread HIV-1 M strain, and the much rarer N and O strains, which jumped to people from chimpanzees, the newly described P strain originated in gorillas.

Dr Wolfe believes this sort of thing happens all the time. He calls it viral chatter. Only occasionally, as with the m strain of HIV-1, does the chatter lead to a serious epidemic. Monitoring the chatter, however, may nip such an epidemic in the bud. The Global Viral Forecasting Initiative is therefore involved in setting up a monitoring system in viral “hot spots”, such as central Africa and South-East Asia, to catch such transfections early.

Dr Rich, meanwhile, observes that because *P. reichenowi*, the closest relative of *P. falciparum*, is "of greatly diminished pathogenicity" in its chimpanzee hosts (in other words, it causes them few adverse symptoms), it may provide a basis for the development of new vaccines that are naturally attenuated. And a malaria vaccine would be a good thing indeed.

Rainforest

Burning issues

Aug 6th 2009
From The Economist print edition

A new experiment is setting the Amazon on fire

FLPA

Revaluing the leaf

THIS month Jennifer Balch will head into the Amazon rainforest of Mato Grosso state, in Brazil. She intends to set fire to it and find out what happens. When Dr Balch, who is based at Woods Hole Research Centre, in Massachusetts, and her 30 helpers have finished their weeklong task, 50 hectares will have been torched. “It’s pretty darn exciting, and a bit crazy”, she says, “to see a bunch of researchers running around burning down a forest.”

The questions that prompt all this destruction are important. The first is: will tropical forests survive the increasing occurrence of wildfires as the climate changes and people move in, or will the landscape shift from one ruled by trees to one dominated by grassland? The second is: how much carbon do such wildfires release into the atmosphere?

Wildfires are certainly a problem in Brazil. During the droughts of 1997 and 1998, which were linked to El Niño, an irregular warming of the Pacific Ocean, 39,000 square kilometres of Amazonian forest were burned by such fires. That is twice the area deliberately cut down in Brazil each year between 1988 and 2005. Similar fires occurred all over South-East Asia and Latin America, causing $19 billion-24 billion of damage through loss of timber, destruction of property and the effect of the smoke on human health.

Tropical wildfires are different from the ones that happen in temperate woodlands, for example in the western United States. Temperate-forest fires burn hot and fast, and sometimes all the way up to the crown of a tree. Tropical forest is wetter and usually supports only knee-high fires that spread slowly through the understorey. Indeed, they are slow enough to be outrun—which is convenient for Dr Balch and her associates.

Tropical fires are, nevertheless, a significant source of carbon dioxide. And their increasing frequency is an important part of the degradation of the Amazon forest—and could be an indicator of large-scale environmental change. To find out more about what such fires presage, Dr Balch has been conducting experimental burns like the one now planned since 2004.

At the start of each experiment the group cuts a fire break along the perimeter of the area. This means removing all vegetation, right down to the soil. Then researchers fan out across the forest measuring the temperature and the humidity of the air (two of the factors that determine how a fire will behave), and recording the amount of woody fuel in the forest and the moisture in that fuel. Five minutes after that come the fire-raisers, who light 10km of “fireline” using drip torches (devices that drop flaming paraffin at a constant rate). Five minutes after them it is the turn of the unfortunate team charged with measuring the height of the flames and mapping the fireline in order to calculate how fast it is moving—all without inhaling too much smoke as they go.

The results so far are worrying. Though many of the largest trees in the Amazon can survive repeated fires, smaller plants do less well. In those areas that have had three or four periods of experimental burning only half the number of species of tree seedlings originally found are still there. Grasses, by contrast, are doing well. So far, they have invaded as far as 200 metres from the edge of the forest.

That is worrying for those who prefer forest to savannah. Global warming alone is predicted to favour the conversion of woodland to grassland, and Dr Balch thinks her work shows that wildfires may accelerate

the process. Grasses are well adapted to fire, being able to resprout quickly from their roots and thus outcompete tree seedlings.

The goal, then, is to encourage landowners to do more to prevent wildfires from starting and spreading. Those landowners, however, are in it for the money. At the moment, standing forest is of little commercial value, and much of it continues to exist only because of laws intended to prevent total clearance of the land. But talk of financial incentives for forest-owners to preserve their trees is in the air, and a deal may be struck at the United Nations climate-change meeting being held in Copenhagen in December.

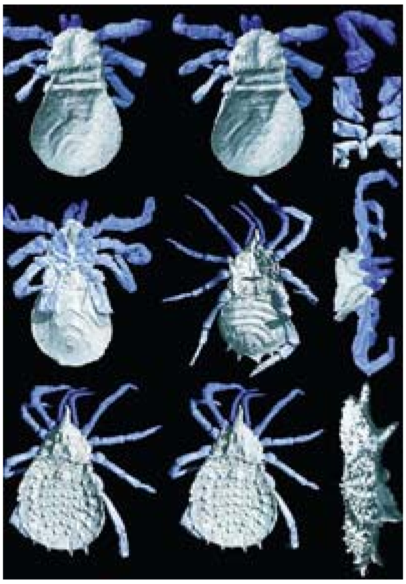
Intriguingly, Dr Balch's experimental area is part of an 80,000-hectare holding owned by the family of Blairo Maggi, a soyabean magnate who is the governor of Mato Grosso. In 2005 Mr Maggi "won" the Greenpeace "golden chainsaw" award for deforestation. But if money to preserve trees were on the table his views might change. Dr Balch has done a back-of-the-envelope calculation. Assuming a conservative value of $5 per tonne of carbon locked up by trees, she calculates that a wildfire which spread through half of the landholding that Mr Maggi is legally required to keep as forest would cost him $16m. That would make intact rainforest hot property indeed.

Fossil arachnids

Spidery images

Aug 6th 2009
From The Economist print edition

Russell Garwood



Fossils usually come embedded in rock. Extracting them from that rock is tricky and risks damaging them, particularly if they are all legs, like a spider. And like a spider is exactly what these critters are. They are 312m-year-old examples of a group of relatives of spiders, called the trigonotarbids. Though they had eight legs, trigonotarbids lacked spinnerets and so, presumably, could not produce silk. These pictures, published in *Biology Letters*, were taken by Russell Garwood of Imperial College, London, using a technique called high-resolution X-ray micro-tomography. This is a small-scale version of medical computerised-tomography scanning, which produces wonderfully detailed pictures of fossil animals that are still in the rock and, most importantly, does not risk pulling any of their legs off.

Amartya Sen on justice

How to do it better

Aug 6th 2009
From The Economist print edition

In his study on how to create justice in a globalised world, Amartya Sen expounds on human aspiration and deprivation—and takes a swipe at John Rawls

Illustration by Daniel Pudles

The Idea of Justice. By Amartya Sen. *Belknap Press; 496 pages; $29.95. Allen Lane; £25*. Buy from Amazon.com, Amazon.co.uk

AT THE disputed crossroads where economics and ethics meet stands Amartya Sen, a Nobel-prize-winning economist who thinks like a philosopher. In a dauntingly impressive flow of books and papers over 40 years he has done much to change both disciplines for the better, humanising the one, bringing content from the real world to the other. His work is technical, however, and the fine detail has sometimes hidden the shape of the whole. Mr Sen's latest book answers both difficulties in magisterial style.

In the courtliest of tones, Mr Sen charges John Rawls, an American philosopher who died in 2002, with sending political thinkers up a tortuous blind alley. The Rawlsian project of trying to describe ideally just institutions is a distracting and ultimately fruitless way to think about social injustice, Mr Sen complains. Such a spirited attack against possibly the most influential English-speaking political philosopher of the past 100 years will alone excite attention.

"The Idea of Justice" serves also as a commanding summation of Mr Sen's own work on economic reasoning and on the elements and measurement of human well-being. It is often intricate but never worthy. Conceptual subtleties flank blunt accounts of famine's causes or physical handicap's economic effects. A conviction that economists and philosophers are in business to improve the world burns on almost every page.

Mr Sen writes with dry wit, a feel for history and a relaxed cosmopolitanism. He presumes that the values in play are of global, not purely Western, import. Earlier thinkers he cites on justice and toleration come less from fourth-century Athens or 17th-century England than from India, where he was born 75 years ago. Growing up in Bengal, he learned about poverty and equality directly, not from books.

Two themes predominate: economic rationality and social injustice. Mr Sen approaches them alike. He can, when he wants, theorise without oxygen at any height. But he believes that theory, to be of use, must keep its feet on the ground. Modern theorists in his view have drifted too far from the actual world.

Economists have tended to content themselves with a laughably simple picture of human motivation, rationality and well-being. People are not purely self-interested. They care for others and observe social norms. They do not always reason “instrumentally”, seeking least-cost means to given ends. They question the point of their aims and the worth of their wants. Well-being, finally, has no single measure and is not inscrutable to others. Its elements are many and do not boil down to “utility” or some cash-value equivalent.

Complexity, though, need not breed mystery. Well-being’s diverse elements (freedom from hunger, disease, indignity and discrimination, to name four) are generally observable and, he believes, measurable. They are, to put it crudely, matters of fact, not taste, even if his philosophical story—that what underpins the several elements of well-being is that they all extend people’s “capabilities”—is still argued over.

Rawls held that social justice depended on having just institutions, whereas Mr Sen thinks that good social outcomes are what matter. Strictly both could be right. The practical brunt of Mr Sen’s criticism, however, is that just institutions do not ensure social justice. You can, in addition, recognise social injustices without knowing how a perfectly fair society would arrange or justify itself. Rawlsianism, though laudable in spirit, is too theoretical, and has distracted political philosophers from corrigible ills in the actual world.

Other arguments feed Mr Sen’s main themes. For example, that social-choice theory (how to gauge a society’s welfare from that of its members) permits good-enough, albeit incomplete, social comparisons. Also that the inevitable fact that moral judgments are made from a viewpoint does not make moral values local or subjective; that when talking of equality, you must always ask “equality of what?”; that rights carry extra weight without necessarily outweighing every concern; that justice’s demands outrun countries’ borders.

Tying the whole together is Mr Sen’s confidence that, though values are complex, economics provides tools for thinking clearly about complexity. “The Idea of Justice” is a feast, though perhaps not one to be consumed at a single sitting.

Virtually every claim Mr Sen makes will be objected to by someone. Right-wingers who follow Friedrich Hayek or James Buchanan will treat “social justice” and “social choice” as nonsenses. Mr Sen wants to humanise canons of “maximising” rationality; behavioural economists, much in fashion, aim to ditch them altogether. Rawlsian liberals will rally to the defence of their hero. Nobody, however, can reasonably complain any longer that they do not see how the parts of Mr Sen’s grand enterprise fit together.

His hero is Adam Smith: not the Smith of free-market legend, but the father of political economy who grasped the force of moral constraint and the value of sociability. To encapsulate the shift in attitude that Mr Sen has sought to bring about, ethics and economics are to be seen as Smith saw them: not two subjects, but one.

Mr Sen ends, suitably, with democracy. It can take many institutional forms, he says. But none succeeds without open debate about values and principles. To that vital element in public reason, as he calls it, “The Idea of Justice” is a contribution of the highest rank.

The California dream

How it was back then

Aug 6th 2009
From The Economist print edition

Golden Dreams: California in an Age of Abundance 1950-1963. By Kevin Starr. *Oxford University Press; 576 pages; $34.95 and £19.99.* Buy from Amazon.com, Amazon.co.uk

THESE days the California dream looks a little tarnished. Arnold Schwarzenegger's government is dysfunctional and the legislature gridlocked. Unemployment is high, public schooling poor and the physical infrastructure in dire need of renewal.

But that is now. By contrast Kevin Starr's eighth offering in his epic series, "Americans and the California Dream", covers a period when the dream was at its most persuasive. By 1963 the "Golden State" was overtaking New York to become the most populous in the nation, with Governor Edmund "Pat" Brown proudly declaring that "the balance of the most powerful nation of the world will shift from the Atlantic to the Pacific."

In fact, the dream had its flaws even then. As Mr Starr points out, the state's minorities, chiefly African-Americans, Hispanics, Japanese, Chinese and Filipinos, were all victims of a racism that was both personal and institutional (the Los Angeles Police Department was a shockingly corrupt example). Moreover, the state's growth in population after the second world war was producing horrible signs of environmental damage, though drivers and carmakers alike were reluctant to admit that the smog over Los Angeles was the result of automobile emissions.

Yet the balance was positive: racial discrimination met with judicial defeat; pollution increased support for the Sierra Club and Friends of the Earth; and a series of great figures—in politics, business, the arts and even sport—made their mark on the 20th century. Part of the reason was the accident of history. California's huge defence and aerospace industry grew first from the second world war, then from the Korean war and the cold war (and, beyond the scope of this book, finally the Vietnam war). In tandem came some of the world's finest research institutes, many of them part of the public-sector and multi-campus University of California. Add the magic of Hollywood and later the sound of the Beach Boys' pop and cool West Coast jazz: no wonder the world thought California to be especially blessed.

All this Mr Starr relates in an erudite but lively style that happily stops this long book from becoming indigestible. His technique is to describe history through its players, with all their foibles. The chapter on Big Sur, for instance, not only notes the sexual activities of Henry Miller but points to the presence of Emil White, "a Polish-Jewish refugee who lived down the road on Highway 1 and acted as factotum, gatekeeper and designated substitute seducer of the women who came to Big Sur to seduce Henry Miller and found him, temporarily, a happily married man."

At times the technique, putting biography ahead of analysis, leads Mr Starr astray. A chapter on suburbia, for example, is rather too full of detail of developers long forgotten. Similarly, readers not enamoured of jazz may wonder why they need to know so much about Dave Brubeck. But this is a tiny criticism to set against Mr Starr's masterly accounts of Los Angeles, San Diego and San Francisco (where he posits a cultural battle between old guard "Provincials" and the liberal "Baghdader" newcomers, so called after an article "Baghdad by the Bay", by the city's main columnist, Herb Caen).

One small quibble is the affectation in the title that this period of California's history began in 1950 and ended in 1963 (coincidentally the year of President Kennedy's assassination). In the book itself Mr Starr sensibly delves into the 1940s and even earlier. In a previous book in the series, "Coast of Dreams: California on the Edge, 1990-2003", published in 2004, Mr Starr has already come almost up to date and begun his take on the Schwarzenegger era. It will be fascinating to see how he chooses to conclude it.

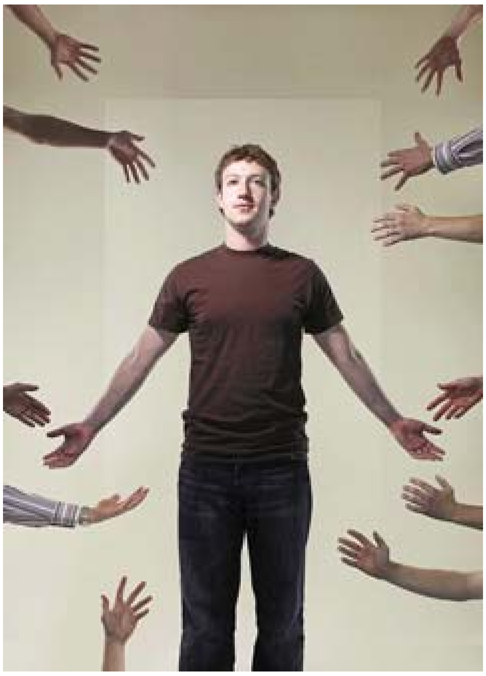
The creation of Facebook

Friends and foes

Aug 6th 2009
From The Economist print edition

The Accidental Billionaires: The Founding of Facebook: A Tale of Sex, Money, Genius and Betrayal. By Ben Mezrich. *Doubleday; 272 pages; $25. Heinemann; £11.99*. Buy from Amazon.com, Amazon.co.uk

Guardian



Reaching out to Mr Zuckerberg

WHEN a geek leaves a hip party with a gorgeous girl on his arm, it is typically in a scene from a film rather than one from the real world. Yet in Silicon Valley, where pasty-faced youths with a penchant for churning out computer code are often feted as rock stars, celluloid fantasy can sometimes become reality. For the two friends who created Facebook, their site's early success propelled them into a world of cool nightclubs and hot dates. But it also landed them in a legal battle that ultimately soured the relationship between the founders of the world's most successful online social network.

Those looking for deep insights into the phenomenon represented by Facebook, which now boasts some 250m members, will be disappointed by Ben Mezrich's book. Although he offers a cursory analysis of the network's astonishing influence, the author concentrates primarily on the way Facebook was created and dives deep into the behind-the-scenes machinations as the company turns from an amateur experiment into a professional operation.

To veterans of the start-up world, the plot of "The Accidental Billionaires" will sound all too familiar. A couple of young nerds—two Harvard undergraduates, Mark Zuckerberg and Eduardo Saverin—come up with a brilliant idea for a website and launch a prototype. As their creation expands beyond their wildest dreams, they are courted by silver-tongued venture capitalists. Some time after investors take a stake in the fledgling company, a decision is taken to change its management structure. Mr Saverin's equity stake is diluted for reasons that he strongly objects to and he falls out with the other owners, including Mr Zuckerberg, the company's chief executive. Recriminations and lawsuits fly.

"The Accidental Billionaires" is at its best when it describes the fraternity-house atmosphere that governs the start-up's early days. For instance, in one scene Mr Zuckerberg decides to hold a competition to recruit new programmers. This requires the candidates not just to hack through line after line of computer code, but also to drink shot after shot of whiskey at various points along the way.

Yet while Mr Mezrich spins a colourful tale from this and other snapshots, his take on the internal battles at Facebook is flawed. Mr Zuckerberg refused to be interviewed for the book, so the narrative is missing a crucial perspective. And Mr Mezrich appears to have relied heavily on sources with large axes to grind against Facebook's boss. They include Mr Saverin ("without whom this story could not have been written," admits the author) and several Harvard students who once accused Mr Zuckerberg of stealing the idea for his social network from a project he briefly helped them with—a charge he has vehemently denied. A more balanced account of the friction behind Facebook remains to be written.

British bluestockings

Learned and ingenious ladies

Aug 6th 2009
From The Economist print edition

Bluestockings: The Remarkable Story of the First Women to Fight for an Education. By Jane Robinson. *Viking; 288 pages; £20.* Buy from Amazon.co.uk

Alamy

Degrees of separation

"IT IS clear what has to be done," said Emily Davies to Elizabeth Garrett Anderson during a fireside chat one evening in 1860. "I must devote myself to securing higher education while you open the medical profession for women." Each succeeded admirably in her allotted task. Garrett Anderson started practising as Britain's first female doctor in 1865, qualifying via the Society of Apothecaries when medical schools refused to admit her. In 1869 Davies rented Benslow House in Hitchin, a southern English market town, for herself and five young women who, with the support of professors who travelled from Cambridge, under an hour away by train, became the first women to study for a degree course in any English university. When in 1873 Benslow House was forsaken for the newly formed Girton College in Cambridge, there were 15 women enrolled.

Fifteen pioneers who could study what men studied, and take the same exams as men—but who could not graduate. In 1897, when Cambridge's Senate voted on whether to grant women degrees, (male) students rioted and an effigy of a suffragette in bloomers on a bicycle was suspended from the Senate House windows. The motion was defeated. Neither Philippa Fawcett, who in 1890 scored higher than any man in the mathematics tripos, nor Elsie Phare, who gained a starred first in English in the 1920s, gained degrees. Only in 1948 did Cambridge relent. It was the last English university to let women graduate.

The women who went to university before the second world war faced formidable obstacles: ridiculed by fellow students, refused teaching by some lecturers, denounced in newspaper editorials and often pulled out of study unceremoniously because of problems at home. Most had to overcome scrappy early education, consisting at best of oddities imparted by governesses who rarely knew much themselves. "Of all the arithmetic I learned," said Constance Maynard, one of the earliest women students in residence in Cambridge, "I can call to mind only one single rule, and it ran thus: 'Turn the fraction upside-down and carry on as before.'" A fellow student could recall being taught nothing more profound than when black silk stockings were first worn in England and what to do in a thunderstorm at night.

But set against the difficulties and meannesses were heroism, kindness and a sisterly pleasure in other women's triumphs. When Mariana Beer was accepted to read English at Bristol in 1921, her headmistress celebrated with a half-day holiday for the entire school. Trixie Pearson's family went on poor relief rather than pull her out of Oxford during the Depression, and she later realised that the "bursary" her college gave her in fact came straight out of her tutors' pockets. Jane Robinson's charming social history is a story of widening horizons, lifelong friendships, evenings spent drinking cocoa and setting the world to rights—and, above all, the joy of learning for its own sake.

Political rebels in England

The road to insurrection

Aug 6th 2009
From The Economist print edition

The English Rebel: One Thousand Years of Trouble-Making from the Normans to the Nineties. By David Horspool. *Viking; 432 pages; £25.* Buy from Amazon.co.uk

THERE was a time when the following (mocking) story used to be told about one of the grander and damper "wets" in Margaret Thatcher's first cabinet. So worried was he about the steep rise in unemployment brought about by her policies that he had a recurring nightmare in which his son would come running up the drive shouting: "Daddy! Daddy! What are we to do? There is a crowd of angry men with sticks standing at the gates."

That bleeding-hearted toff, and others like him, soon made way for steelier characters such as Norman Tebbit. Mrs (now Lady) Thatcher went on to win two more elections while defeating the organised insurrection of the miners' union—"the enemy within", as she called it. But it was the mob that helped do for her in the end. The scale of the rebellion against her "community charge" (the poll tax to everyone else) resulted in massive non-payment and violent rioting in London that left 374 police and 400 protesters injured. Her refusal to change course led directly to her removal from office and the reversal of the hated policy by her successor.

The point of David Horspool's history of English rebels from Hereward the Wake, a thorn in the side of William the Conqueror, to the poll-tax revolt a thousand years later is that the perception of England as a uniquely continuous, stable realm undisturbed by bloody revolution and the Englishman as tolerant, peaceable and slow to anger is both recent and wrong. Whether anyone who knows any history could be so mistaken is arguable. Even today's undereducated schoolchildren are likely to learn something about the English civil war. They may even be aware that the rite of burning an effigy on November 5th (a tradition admittedly under threat from political correctness and the health-and-safety police) celebrates the foiling of a plot to blow up the Houses of Parliament.

But Mr Horspool's achievement is to show the sheer extent to which rebellion in its many different shapes and forms has been a continuous and conscious tradition shaping the behaviour of both the ruled and their rulers. The Levellers in the 17th century saw their oppression as dating from the imposition of the "Norman yoke" in the 11th century; the 19th-century Chartists took their inspiration from Magna Carta in the 13th century; and those late 20th- century rebels defying Mrs Thatcher's poll tax referred directly back to the Peasants' Revolt of the 14th century. That said, the character of most rebellions was to a large degree set by the time and the context in which they took place.

Throughout the Middle Ages, from the barons forcing King John to sign the Magna Carta, to the Wars of the Roses, rebellion was a game played almost exclusively by the rich and powerful. Their aim was usually to discipline a king who was not playing by the accepted rules of the game and only to replace him (as in the cases of Kings Edward II and Richard II) when he refused to mend his ways. With the exception of Jack Cade's rising in 1450 and the Peasants' Revolt 70 years earlier (a large-scale popular uprising with genuinely revolutionary social and economic aims), medieval rebellions were often more about preserving the status quo rather than challenging it.

Things changed a little with what Mr Horspool correctly describes as "the convoluted, serve-and-return history of the English Reformation". The introduction of religion into politics raised the stakes considerably—the Protestant John Whitgift, Archbishop of Canterbury under Elizabeth I, warned that "disobedience to the prince in civil matters is disobedience to God." But again, the bloodiest and most far-reaching rebellion was caused as much by an unrealistic idea of kingly power held by the incumbent monarch as by the very real fear of "popery".

After the "Glorious Revolution" of 1688, which Mr Horspool argues was more a foreign invasion driven by events on the continent than a local revolt, home-grown uprisings (as distinct from the two Jacobite rebellions) tended to fall into three categories: attempts to spread individual (especially voting) rights;

economic discontent; and mob violence (usually a protest against change and often aimed against foreigners).

“The English Rebel” is a spry account of some of history’s biggest failures—the reader will quickly lose count of the number of rebels who meet their end in a grisly way. But it is also a reminder that although English rebels (even Oliver Cromwell) never succeeded in achieving lasting revolutionary change (and rarely even wanted it), they helped make the modern British state what it is. As Mr Horspool says: “The English rebel may only rarely be a triumphant or even a particularly likeable character. But he and she are as much a part of the fabric of English history as the monarchs, lawmakers and political leaders they defied. They serve as inspiration, as warning, and sometimes simply as example.”

A very British thriller

Freedom song

Aug 6th 2009
From The Economist print edition

The Dying Light. By Henry Porter. *Orion; 425 pages; £12.99*. Buy from Amazon.co.uk

Guardian

A modern Hotspur

OVER the past decade, Henry Porter has regularly produced a new thriller every two years. The long break since his last book, "Brandenburg", is the direct result of his growing involvement in the fight over civil liberties and free speech in Britain, first under Tony Blair and now under Gordon Brown. Refusing to succumb to complacency, Mr Porter has become a rallying figure for concerned liberals, first through his pointed commentaries on the op-ed pages of the *Observer* and more recently as the organiser of the Convention on Modern Liberty. His worries about what Britain is becoming now fill his fiction.

His fifth novel, "The Dying Light", is set somewhere in the middle of the next decade. Ever since the 2012 Olympics in London, Britain has become more and more of a database police state. Hotel guests have to fill in registration forms that are filed with the authorities. You cannot leave the country without informing them too. Sophisticated computer software tracks every purchase, every hospital visit, every car journey. Coroners' courts, that traditional bastion of independence, are under secret political control. British subjects are routinely put under surveillance by flying drones or harassed by the police, the tax authorities and social services. "We do not want any mischief at this stage," the prime minister explains. "Mischief", which describes everything from anti-social behaviour to terrorism, is a word Mr Porter's prime minister uses a lot.

Needless to say, it is the unchecked and overinflated government that is causing the mischief. One group, in particular, falls foul of the state's determination to hide what it is up to. Kate Lockhart, a former high-flyer in the British Secret Intelligence Service, is the focus of the government's paranoia and leads the resistance to it. The author is a master plotter, and his interest in Britain's burgeoning anti-terror laws inspires him to paint a frightening portrait of what could so easily be without ever straying into the completely unbelievable.

Mr Porter has an ear for the politician's forked tongue and the language of obfuscation. His clever Miss Lockhart is brave, beautiful and full of guile, but his real hero (both in this book and in his activism) is the British Parliament, an institution soaked, not just with history, but with what Immanuel Kant called "the moral laws within". Mess with it at your peril, as the villains in this book discover to their cost. For those who like political thrillers, this is one of the season's best: scary, informative and, alas, eminently believable.

Economist.com
PEOPLE
OBITUARY

Corazon Aquino

Aug 6th 2009
From The Economist print edition

Corazon Aquino, president of the Philippines, died on August 1st, aged 76

Reuters

IF GREATNESS was thrust upon Corazon Aquino, and for a while it was, she did her best to parry it. The decisive moment came after eight hours of prayer at St Joseph's Convent of Perpetual Adoration in Quezon City, the former capital of the Philippines. There the self-proclaimed "plain housewife" resolved that she would, after all, accede to the request of 1m petitioners and run for president in the election that the wicked President Ferdinand Marcos had just called. Days of humming, hawing and after-youing were at an end, and the people had a champion. She was the lady in the yellow dress, simple, bespectacled, plain not just in her housewifery but also in her demeanour, a contrast in every way to the stylish Imelda, who was still stuffing the boudoirs of the presidential palace with frocks and furs and shoes, shoes, shoes. The power, however, was with the people, and the people were with Cory.

It was a tumultuous time for the Philippines, a country that has never been easy to take seriously. Its Spanish-American colonial experience, invigorated by Malay, Chinese and indigenous influences, has produced an Asian variant of the rum-and-Coca-Cola culture. In the 1980s this meant visitors could be forgiven for thinking they had arrived on the set of a wacky sitcom, perhaps made for the Central American market, in which the actors, all speaking American with a Latin twang, were masquerading as the nation's public figures.

Strangely, though, they had nicknames that evoked either the Broadway characters of Damon Runyon or, more bizarrely, the upper classes of Wodehousian England: Bongbong, Teddyboy, Ting Ting and Ballsy, for example. But the aristocrats, pallid though they were by Philippine standards, were less Edwardian buffers than *mestizos* of Spanish-indigenous or Spanish-Chinese blood, whose landholdings and feudal attitudes were reminiscent of nowhere so much as time-warped Pakistan. Adding to the exotic admixture were such minor curiosities as Cardinal Sin, whose inspired name suggested someone in the Vatican must have had a sense of humour, and the ouija tables introduced to the Malacañang Palace during the Marcos presidency, which yanked the mind back towards the Chinese occult.

Against such a backdrop, Mrs Aquino—devout, shy and apparently devoid of ambition—was on the face of it an improbable tribune of the Filipinos. But circumstances propelled her. In August 1983 her husband Benigno, better known as Ninoy, a leading opponent of the president, had returned home from three

years' exile in the United States. He was at once shot dead. Over 2m people attended his funeral, which turned out to be, in effect, the first of a series of mass demonstrations against the regime, many of them prominently attended by the woman in the yellow dress. These culminated, after Marcos had tried to steal the election and some soldiers had mutinied, in an outpouring of protesters onto Epifanio de los Santos Avenue, known as EDSA, the huge arterial highway that loops round the capital, Manila. Three days later, on February 25th 1986, Marcos was on his way to Hawaii and Mrs Aquino was president (see article).

The guts but not the nous

Cory had not been passive. She had seen off the charges of crypto-communism, faced down the efforts at intimidation and rejected the ill-judged attempt by Ronald Reagan's envoy to make her share power with Marcos. But her greatness was already at an end. As president, she introduced a democratic constitution and set the judiciary free. Her land reform, however, failed to break the grip of the aristocrats, and her promises to end the long communist insurrection were soon set aside. Worse, she failed to control the army. Her greatest achievement was to survive seven attempted coups and hand over peacefully at the end of her six-year term.

At bottom, she was quite conservative. She spoke for the people but her family was rich, landed and firmly set in the political establishment. In 1948, after studying in Philadelphia and New York, she had worked as a volunteer in the campaign of Thomas Dewey, the Republican presidential candidate. Nothing she was to suffer later would either shake her faith or turn her red. The "revolutionary" government she proclaimed owed nothing to Marx or Mao. Decency and honesty she had in plenty, and on occasion a hint of steel. But these were overwhelmed by indecision, naivety and a lack of political instinct.

Today Mrs Aquino's reputation rests mainly on her role as the leader of a people-power revolution of the kind that seemed to be sweeping the world a few years ago. Her yellow dress and the yellow ribbons it inspired are even seen as the forerunners of the roses, tulips and other coloured emblems of these uprisings. Unfortunately, in the Philippines, as elsewhere, people power has sometimes turned into mob rule rather than direct democracy: in 2001 President Joseph Estrada, though legitimately elected, was deposed in another EDSA revolution.

As the yellow fades, Mrs Aquino may come to be seen as just another example of Asia's political-widow syndrome, in which the doughty wife of a slain statesman rises to replace him. It has happened in Bangladesh, India and Sri Lanka. No one, however, has done it with such modesty, pluck and charm as Cory Aquino.

Overview

Aug 6th 2009
From The Economist print edition

In **America**, GDP fell at an annualised rate of 1% in the second quarter, which was less than forecasters had expected. The first-quarter rate of decline was revised from 5.5% to 6.4%. The value of personal consumption rose by 0.4% in June, though all and more of the increase was accounted for by rising prices. Personal incomes fell by 1.3% from May, when they had been boosted by the government's fiscal stimulus.

Industrial output in **Britain** rose by 0.5% in June, helped by a jump in car production.

Consumer prices in the **euro area** fell by 0.6% in the year to July, according to a preliminary estimate. The unemployment rate edged up to 9.4% in June. Retail sales in the euro area fell by 0.2% in June, to a level 2.4% lower than a year before.

Switzerland's consumer prices were 1.2% lower in June than a year earlier.

A fall in inflation allowed the **Romanian** central bank to cut its key interest rate by half a percentage point, to 8.5%, the lowest since January 2008. **Indonesia's** central bank lowered its main lending rate to 6.5%.

South Korea's consumer-price inflation rate fell from 2% in June to 1.6% in July, the lowest for nine years. Inflation in **Turkey** fell to 5.4% in July from 5.7% in June.

Analysts are a bit more optimistic about the outlook for GDP growth in France, Germany and Japan in 2010, according to our **monthly poll of forecasters**: see the table below.

Output, prices and jobs

Aug 6th 2009
From The Economist print edition

Output, prices and jobs

% change on year ago

	Gross domestic product				Industrial production	Consumer prices			Unemployment
	latest	qtr*	2009†	2010†	latest	latest	year ago	2009†	rate‡, %
United States	−3.9 Q2	−1.0	−2.6	+2.0	−13.6 Jun	−1.4 Jun	+5.0	−0.3	9.5 Jun
Japan	−8.8 Q1	−14.2	−6.4	+1.1	−23.4 Jun	−1.8 Jun	+2.0	−1.1	5.4 Jun
China	+7.9 Q2	na	+8.0	+8.0	+10.7 Jun	−1.7 Jun	+7.1	−0.6	9.0 2008
Britain	−5.6 Q2	−3.2	−4.2	+1.0	−11.0 Jun	+1.8 Jun§	+3.8	+1.8	7.6 May††
Canada	−2.1 Q1	−5.4	−2.2	+1.8	−11.8 May	−0.3 Jun	+3.1	+0.5	8.6 Jun
Euro area	−4.9 Q1	−9.8	−4.4	+0.6	−17.0 May	−0.6 Jul	+4.0	+0.5	9.4 Jun
Austria	−3.5 Q1	−10.6	−3.2	+0.2	−13.5 May	nil Jun	+3.9	+0.5	4.4 Jun
Belgium	−3.8 Q2	+1.6	−3.5	+0.4	−19.9 Apr	−1.7 Jul	+5.9	+0.3	11.3 Jun‡‡
France	−3.2 Q1	−4.8	−2.8	+0.8	−13.4 May	−0.5 Jun	+3.6	+0.2	9.4 Jun
Germany	−6.9 Q1	−14.4	−5.9	+0.8	−18.1 May	−0.6 Jul	+3.3	+0.2	8.3 Jul
Greece	+0.3 Q1	−4.6	−3.1	−0.8	−7.2 May	+0.5 Jun	+4.9	+0.5	9.4 Apr
Italy	−6.0 Q1	−10.1	−5.1	+0.4	−21.9 Jun	nil Jul	+4.1	+0.8	7.3 Q1
Netherlands	−4.5 Q1	−10.7	−4.3	+0.7	−12.7 May	+0.2 Jul	+3.2	+1.3	4.7 Jun††
Spain	−3.0 Q1	−7.4	−3.9	−0.6	−14.5 Jun	−1.4 Jul	+5.3	−0.4	18.1 Jun
Czech Republic	−3.4 Q1	−12.9	−3.5	+1.2	−22.0 May	+1.2 Jun	+6.7	+1.5	8.0 Jun
Denmark	−4.1 Q1	−4.2	−3.9	+0.6	−16.5 May†††	+1.2 Jun	+3.8	+1.1	3.8 Jun
Hungary	−6.7 Q1	−9.6	−6.3	−1.0	−18.6 Jun	+3.7 Jun	+6.7	+4.3	9.8 May††
Norway	+1.5 Q1	−1.8	−2.0	+0.5	−7.8 May	+3.4 Jun	+3.4	+2.1	3.1 Apr***
Poland	+0.8 Q1	na	−0.8	+1.5	−4.3 Jun	+3.5 Jun	+4.6	+3.2	10.7 Jun‡‡
Russia	−9.5 Q1	na	−7.0	+2.5	−12.1 Jun	+12.0 Jul	+14.7	+12.2	8.3 Jun‡‡
Sweden	−6.2 Q2	−0.1	−4.9	+1.3	−21.9 May	−0.6 Jun	+4.3	−0.2	9.8 Jun‡‡
Switzerland	−2.4 Q1	−16.0	−2.3	+0.4	−9.4 Q1	−1.2 Jul	+3.1	−0.5	3.8 Jun
Turkey	−13.8 Q1	na	−5.6	+2.2	−17.4 May	+5.4 Jul	+12.1	+6.2	14.9 Apr‡‡
Australia	+0.4 Q1	+1.5	nil	+1.8	−3.6 Q1	+1.5 Q2	+4.5	+1.7	5.8 Jul
Hong Kong	−7.8 Q1	−16.1	−6.0	+1.1	−10.2 Q1	−0.9 Jun	+6.1	+1.0	5.4 Jun††
India	+5.8 Q1	na	+5.5	+6.3	+2.7 May	+9.3 Jun	+7.7	+6.0	6.8 2008
Indonesia	+4.4 Q1	na	+2.6	+3.4	+1.8 May	+2.7 Jul	+11.9	+4.3	8.1 Feb
Malaysia	−6.2 Q1	na	−5.0	+3.3	−11.1 May	−1.4 Jun	+7.7	−0.3	4.0 Q1
Pakistan	+2.0 2009**	na	+3.7	+2.8	−11.0 May	+13.1 Jun	+21.5	+12.0	5.2 2008
Singapore	−3.7 Q2	+20.4	−8.6	+1.3	−9.3 Jun	−0.5 Jun	+7.5	−0.2	3.3 Q2
South Korea	−2.5 Q2	+9.7	−4.4	+0.5	−1.2 Jun	+1.6 Jul	+5.9	+2.4	4.0 Jun
Taiwan	−10.2 Q1	na	−6.5	+0.6	−11.4 Jun	−2.3 Jul	+5.8	−1.3	5.9 Jun
Thailand	−7.1 Q1	−7.3	−4.5	+1.9	−7.8 Jun	−4.4 Jul	+9.2	−1.0	2.4 May
Argentina	+2.0 Q1	+0.2	−3.5	+0.7	−2.7 Jun	+5.3 Jun	+9.3	+6.8	8.4 Q1‡‡
Brazil	−1.8 Q1	−3.3	−1.0	+2.7	−10.9 Jun	+4.8 Jun	+6.1	+4.9	8.1 Jun‡‡
Chile	−2.1 Q1	−2.4	−1.0	+2.2	−8.3 Jun	+1.9 Jun	+9.5	+2.1	10.7 Jun†‡‡
Colombia	−0.6 Q1	+0.9	−1.0	+2.5	−6.5 May	+3.3 Jul	+7.5	+4.8	11.4 Jun‡‡
Mexico	−8.2 Q1	−21.5	−7.1	+2.8	−11.6 May	+5.7 Jun	+5.3	+5.5	5.2 Jun‡‡
Venezuela	+0.3 Q1	na	−4.2	−2.7	+11.4 Mar	+27.4 Jun	+32.2	+28.0	8.1 Q1‡‡
Egypt	+4.3 Q1	na	+4.4	+4.0	+5.8 Q1	+10.0 Jun	+20.2	+9.7	9.4 Q1‡‡
Israel	+0.6 Q1	−3.6	−1.3	+1.5	−9.8 May	+3.6 Jun	+4.8	+2.8	7.6 Q1
Saudi Arabia	+4.2 2008	na	−1.0	+3.3	na	+5.2 Jun	+10.6	+4.3	na
South Africa	−1.3 Q1	−6.4	−2.2	+3.1	−17.1 May	+6.9 Jun	+12.2	+7.1	23.6 Jun‡‡
MORE COUNTRIES Data for the countries below are not provided in printed editions of *The Economist*									
Estonia	−15.1 Q1	na	−13.0	−3.0	−30.0 May	−0.9 Jun	+11.4	+0.2	15.6 May
Finland	−7.6 Q1	−10.3	−5.7	−0.1	−23.2 May	−0.1 Jun	+4.4	+0.1	8.8 Jun
Iceland	−3.9 Q1	−13.6	−6.5	−0.7	+10.1 2008	+11.3 Jul	+13.6	+12.5	8.1 Jun‡‡
Ireland	−8.5 Q1	−5.7	−7.7	−2.6	−4.2 May	−5.4 Jun	+5.0	−3.6	11.9 Jun
Latvia	−18.0 Q1	na	−17.0	−4.0	−18.5 Jun	+3.4 Jun	+17.7	+3.0	16.3 May
Lithuania	−22.4 Q2	−40.8	−15.0	−4.5	−16.3 Jun	+4.2 Jun	+12.5	+5.3	9.3 Jun‡‡
Luxembourg	−5.5 Q1	−5.9	−4.9	−0.8	−25.9 Apr	−0.3 Jun	+4.3	+0.5	5.4 Jun‡‡
New Zealand	−2.2 Q1	−2.7	−2.1	+0.7	−11.4 Q1	+1.9 Q2	+4.0	+1.8	6.0 Q2
Peru	+0.5 May	na	+1.3	+2.7	−8.6 May	+2.7 Jul	+5.8	+3.5	8.3 Jun‡‡
Philippines	+0.4 Q1	−8.9	−1.8	+3.0	−13.0 May	+0.2 Jul	+12.3	+2.9	7.5 Q2‡‡
Portugal	−3.7 Q1	−6.2	−4.1	−0.4	−9.5 Jun	−1.6 Jun	+3.4	−0.7	8.9 Q1‡‡
Slovakia	−5.6 Q1	na	−5.5	+0.7	−23.9 May	+2.4 Jun	+4.6	+1.8	11.8 Jun‡‡
Slovenia	−8.5 Q1	na	−6.0	nil	−19.8 May	−0.6 Jul	+6.9	+1.1	8.9 May‡‡
Ukraine	−20.3 Q1	na	−17.0	+1.0	−27.5 Jun	+15.0 Jun	+29.3	+16.0	2.4 Jun
Vietnam	+4.5 Q2	na	+4.2	+4.8	+8.2 Jun	+3.3 Jul	+27.0	+5.6	4.6 2007

*% change on previous quarter, annual rate. †*The Economist* poll or Economist Intelligence Unit estimate/forecast. ‡National definitions.- §RPI inflation

The Economist commodity-price index

Aug 6th 2009
From The Economist print edition

The Economist commodity-price index

2000=100

	Jul 28th	Aug 4th*	% change on one month	% change on one year
Dollar index				
All items	186.7	196.0	+9.8	-18.7
Food	197.7	207.8	+6.2	-14.4
Industrials				
All	172.6	180.8	+15.8	-24.4
Nfa†	137.4	140.9	+13.4	-27.9
Metals	191.9	202.6	+16.7	-23.0
Sterling index				
All items	171.9	175.8	+5.2	-6.0
Euro index				
All items	121.8	125.9	+6.8	-12.6
Gold				
$ per oz	953.65	964.00	+4.2	+9.5
West Texas Intermediate				
$ per barrel	67.31	71.33	+14.1	-39.9

*Provisional †Non-food agriculturals.

The Economist poll of forecasters, August averages

Aug 6th 2009
From The Economist print edition

The Economist poll of forecasters, August averages (previous month's, if changed)

	Real GDP, % change				Consumer prices % increase		Current account % of GDP	
	Low/high range		average					
	2009	2010	2009	2010	2009	2010	2009	2010
Australia	-0.6/0.4	0.8/2.7	nil (-0.2)	1.8 (1.7)	1.7 (1.8)	2.3 (2.4)	-4.0 (-4.1)	-4.5 (-4.6)
Belgium	-4.5/-2.8	-0.8/1.3	-3.5	0.4	0.3 (0.4)	1.2	-2.4	-2.5
Britain	-4.6/-3.4	-0.5/1.9	-4.2 (-3.7)	1.0 (1.1)	1.8 (1.7)	1.9	-1.7	-1.4
Canada	-2.9/-1.2	0.7/2.5	-2.2	1.8 (1.9)	0.5 (0.6)	1.8	-2.3 (-1.8)	-1.6 (-1.0)
France	-3.3/-2.4	-0.4/2.3	-2.8 (-2.9)	0.8 (0.7)	0.2	0.9 (1.0)	-2.1 (-2.2)	-2.1 (-2.5)
Germany	-6.3/-5.3	-0.9/2.8	-5.9 (-6.0)	0.8 (0.6)	0.2	0.8	3.7 (3.9)	4.1 (3.9)
Italy	-5.6/-4.7	-0.5/1.3	-5.1 (-5.0)	0.4	0.8 (0.9)	1.3 (1.4)	-2.8	-2.8 (-2.9)
Japan	-7.4/-5.4	0.1/2.5	-6.4 (-6.1)	1.1 (1.0)	-1.1	-0.6	2.5 (1.9)	2.7 (2.4)
Netherlands	-4.9/-4.0	-0.3/1.6	-4.3 (-4.5)	0.7	1.3	0.9	6.1	5.3 (5.4)
Spain	-4.5/-3.2	-1.5/0.2	-3.9 (-3.8)	-0.6	-0.4 (-0.3)	1.1 (1.3)	-7.1 (-7.2)	-5.8 (-6.2)
Sweden	-5.5/-4.3	0.3/3.1	-4.9 (-5.1)	1.3 (1.1)	-0.2 (-0.3)	1.2	6.7 (7.0)	7.0 (6.8)
Switzerland	-3.5/-1.4	-0.7/1.9	-2.3 (-2.2)	0.4	-0.5	0.4	7.4 (7.6)	8.0
United States	-3.0/-1.9	0.6/2.9	-2.6 (-2.7)	2.0	-0.3 (-0.4)	1.3	-3.0	-3.1 (-3.2)
Euro area	-4.6/-4.2	-0.5/2.1	-4.4	0.6	0.5 (0.4)	1.1	-1.3 (-1.0)	-0.7 (-0.8)

Sources: BNP Paribas, Citigroup, Decision Economics, Deutsche Bank, Economist Intelligence Unit, Goldman Sachs, HSBC Securities, KBC Bank, JPMorgan Chase, Morgan Stanley, RBS, Scotiabank, UBS

Trade, exchange rates, budget balances and interest rates

Aug 6th 2009
From The Economist print edition

Trade, exchange rates, budget balances and interest rates

	Trade balance* latest 12 months, $bn	Current-account balance latest 12 months, $bn	Current-account balance % of GDP 2009†	Currency units, per $ Aug 5th	Currency units, per $ year ago	Budget balance % of GDP 2009†	Interest rates, % 3-month latest	Interest rates, % 10-year gov't bonds, latest
United States	−674.4 May	−628.3 Q1	−3.0	–	–	−13.7	0.26	3.76
Japan	+5.1 May	+107.7 May	+2.5	94.9	109	−7.9	0.40	1.43
China	+286.7 Jun	+426.1 Q4	+6.5	6.83	6.85	−4.1	1.70	3.76
Britain	−145.4 May	−52.5 Q1	−1.7	0.59	0.51	−14.4	0.90	3.97
Canada	+21.1 May	−3.9 Q1	−2.3	1.07	1.05	−2.3	0.27	3.58
Euro area	−46.2 May	−158.1 May	−1.3	0.70	0.65	−5.9	0.88	3.34
Austria	−5.4 Apr	+10.7 Q1	+1.6	0.70	0.65	−5.2	0.88	3.77
Belgium	+6.0 Apr	−12.0 Mar	−2.4	0.70	0.65	−5.8	0.90	3.78
France	−73.9 May	−59.4 May	−2.1	0.70	0.65	−8.2	0.88	3.53
Germany	+196.3 May	+171.0 May	+3.7	0.70	0.65	−4.7	0.88	3.33
Greece	−56.2 Apr	−42.9 May	−9.0	0.70	0.65	−6.1	0.88	4.50
Italy	−11.9 May	−63.1 May	−2.8	0.70	0.65	−5.2	0.88	4.14
Netherlands	+44.1 May	+50.0 Q1	+6.1	0.70	0.65	−4.1	0.88	3.62
Spain	−101.4 May	−117.2 May	−7.1	0.70	0.65	−9.8	0.88	3.86
Czech Republic	+4.3 Jun	−6.3 May	−2.0	18.1	15.5	−4.8	2.07	5.38
Denmark	+6.5 May	+8.5 May	+1.5	5.18	4.84	−2.5	1.98	3.60
Hungary	+1.3 May	−11.3 Q1	−2.9	186	153	−3.9	8.49	8.80
Norway	+61.0 Jun	+79.6 Q1	+14.4	6.03	5.21	7.4	1.76	4.14
Poland	−16.2 May	−15.7 May	−3.3	2.86	2.10	−3.9	4.16	6.01
Russia	+131.5 May	+55.3 Q2	+1.9	31.2	23.6	−8.0	11.00	11.25
Sweden	+13.6 Jun	+31.4 Q1	+6.7	7.16	6.10	−4.7	0.09	3.43
Switzerland	+16.9 Jun	+56.6 Q1	+7.4	1.06	1.06	−3.1	0.36	2.01
Turkey	−47.4 Apr	−23.8 May	−0.6	1.47	1.16	−5.9	8.85	6.00‡
Australia	+5.7 Jun	−29.8 Q1	−4.0	1.19	1.10	−4.0	3.24	5.62
Hong Kong	−20.7 Jun	+29.3 Q1	+10.4	7.75	7.80	−4.0	0.22	2.31
India	−93.4 Jun	−29.8 Q1	−1.2	47.5	42.1	−7.8	3.23	7.62
Indonesia	+11.2 Jun	−0.8 Q1	+0.7	9,880	9,073	−3.0	7.19	6.49‡
Malaysia	+38.2 Jun	+40.5 Q1	+14.1	3.50	3.28	−8.0	2.14	2.45‡
Pakistan	−16.8 Jun	−12.2 Q1	−2.1	83.1	72.5	−4.3	11.99	12.91‡
Singapore	+17.4 Jun	+23.1 Q1	+15.4	1.43	1.38	−4.1	0.50	2.28
South Korea	+21.9 Jul	+20.7 Jun	+2.7	1,225	1,016	−5.4	2.41	5.29
Taiwan	+12.8 Jun	+29.2 Q1	+10.4	32.7	30.8	−5.2	0.85	1.37
Thailand	+10.2 Jun	+8.1 Jun	+5.3	34.0	33.6	−5.6	1.38	3.04
Argentina	+17.1 Jun	+6.8 Q1	+2.6	3.82	3.04	−1.3	14.56	na
Brazil	+27.1 Jul	−18.4 Jun	−1.3	1.83	1.58	−2.8	8.65	6.16‡
Chile	+4.5 Jun	−4.3 Q1	−0.9	541	512	−4.1	0.84	2.62‡
Colombia	nil Apr	−6.5 Q1	−3.3	1,990	1,786	−3.0	5.06	5.57‡
Mexico	−16.0 Jun	−14.2 Q1	−2.7	13.1	9.96	−5.4	4.50	7.94
Venezuela	+32.5 Q1	+26.2 Q1	+1.4	6.90	3.30§	−7.6	14.50	6.55‡
Egypt	−26.1 Q1	−2.9 Q1	−1.8	5.53	5.31	−6.8	9.89	2.98‡
Israel	−9.2 Jun	+4.1 Q1	+2.2	3.91	3.55	−6.1	0.59	4.17
Saudi Arabia	+197.4 2008	+124.0 2008	+4.5	3.75	3.75	−0.5	0.65	na
South Africa	−5.4 Jun	−18.7 Q1	−5.8	7.98	7.45	−4.5	7.75	9.05
MORE COUNTRIES Data for the countries below are not provided in printed editions of *The Economist*								
Estonia	−2.5 May	−0.8 May	+0.7	10.9	10.1	−3.7	6.08	na
Finland	+6.3 May	+4.2 May	+1.0	0.70	0.65	−2.6	0.86	3.64
Iceland	+0.3 Jun	−6.1 Q1	+2.2	125	79.4	−13.0	7.92	na
Ireland	+47.7 May	−11.3 Q1	−3.1	0.70	0.65	−12.9	0.88	4.79
Latvia	−4.3 May	−1.7 May	−2.0	0.49	0.46	−11.0	12.92	na
Lithuania	−4.3 May	−2.2 May	−0.3	2.40	2.24	−6.9	8.21	na
Luxembourg	−7.3 Apr	+2.2 Q1	na	0.70	0.65	−4.0	0.88	na
New Zealand	−2.3 Jun	−11.8 Q1	−7.1	1.49	1.39	−6.7	3.70	5.83
Peru	+1.9 May	−3.8 Q1	−2.3	2.96	2.80	−2.3	1.95	na
Philippines	−6.9 May	+5.1 Mar	+3.8	47.8	43.8	−3.4	4.19	na
Portugal	−30.7 Apr	−24.5 May	−8.7	0.70	0.65	−7.0	0.88	3.92
Slovakia	−0.3 May	−5.4 May	−7.0	20.9	19.7	−5.5	1.35	4.28
Slovenia	−3.4 May	−2.1 Apr	−1.6	0.70	0.65	−5.7	0.88	na
Ukraine	−13.4 Q1	−6.5 Q2	−0.4	7.90	4.63	−7.0	11.00	na
Vietnam	−5.4 Jul	−7.0 2007	−6.9	17,810	16,610	−9.0	8.21	6.35

*Merchandise trade only. †The Economist poll or Economist Intelligence Unit forecast. ‡Dollar-denominated bonds. §Unofficial exchange rate.

Markets

Aug 6th 2009
From The Economist print edition

Markets

	Index Aug 5th	% change on one week	Dec 31st 2008 in local currency	Dec 31st 2008 in $ terms
United States (DJIA)	9,281.0	+2.3	+5.7	+5.7
United States (S&P 500)	1,002.7	+2.8	+11.0	+11.0
United States (NAScomp)	1,993.1	+1.3	+26.4	+26.4
Japan (Nikkei 225)	10,252.5	+1.4	+15.7	+10.5
Japan (Topix)	949.6	+2.1	+10.5	+5.6
China (SSEA)	3,599.0	+5.0	+88.3	+88.0
China (SSEB, $ terms)	221.7	+5.5	+100.1	+99.9
Britain (FTSE 100)	4,647.1	+2.2	+4.8	+23.7
Canada (S&P TSX)	11,046.9	+5.7	+22.9	+41.5
Euro area (FTSE Euro 100)	815.5	+1.7	+9.3	+13.1
Euro area (DJ STOXX 50)	2,643.1	+1.6	+8.0	+11.8
Austria (ATX)	2,338.9	+6.0	+33.6	+38.3
Belgium (Bel 20)	2,173.3	+2.5	+13.9	+17.8
France (CAC 40)	3,458.5	+2.8	+7.5	+11.2
Germany (DAX)*	5,353.0	+1.6	+11.3	+15.2
Greece (Athex Comp)	2,390.2	+5.0	+33.8	+38.5
Italy (S&P/MIB)	20,962.5	+3.4	+7.7	+11.5
Netherlands (AEX)	285.2	+2.9	+16.0	+20.0
Spain (Madrid SE)	1,114.8	+0.5	+14.2	+18.2
Czech Republic (PX)	1,120.5	+12.7	+30.6	+39.7
Denmark (OMXCB)	301.9	+6.4	+33.5	+38.1
Hungary (BUX)	17,603.4	+6.8	+43.8	+47.5
Norway (OSEAX)	352.1	+4.3	+30.3	+51.3
Poland (WIG)	34,676.4	+2.5	+27.4	+31.8
Russia (RTS, $ terms)	1,094.3	+12.4	+77.0	+73.2
Sweden (OMXS30)†	874.5	+1.9	+32.0	+45.9
Switzerland (SMI)	5,911.9	+2.2	+6.8	+7.0
Turkey (ISE)	43,899.4	+8.7	+63.4	+71.3
Australia (All Ord.)	4,272.2	+3.0	+16.7	+39.9
Hong Kong (Hang Seng)	20,494.8	+1.8	+42.4	+42.4
India (BSE)	15,903.8	+4.8	+64.9	+69.0
Indonesia (JSX)	2,317.1	+4.1	+70.9	+88.6
Malaysia (KLSE)	1,179.5	+1.3	+34.5	+33.1
Pakistan (KSE)	7,834.7	+3.9	+33.6	+27.1
Singapore (STI)	2,606.8	+0.1	+48.0	+48.6
South Korea (KOSPI)	1,559.5	+2.3	+38.7	+42.6
Taiwan (TWI)	6,848.2	−3.3	+49.2	+49.6
Thailand (SET)	640.2	+4.1	+42.3	+45.6
Argentina (MERV)	1,806.5	+9.1	+67.3	+51.1
Brazil (BVSP)	56,384.0	+4.9	+50.2	+91.2
Chile (IGPA)	15,599.5	+1.9	+37.8	+62.2
Colombia (IGBC)	10,375.4	+3.3	+37.2	+55.1
Mexico (IPC)	28,082.6	+5.9	+25.5	+32.2
Venezuela (IBC)	46,391.9	+0.4	+32.2	+42.3
Egypt (Case 30)	6,463.5	+5.9	+40.6	+40.1
Israel (TA-100)	910.2	+2.9	+61.4	+55.8
Saudi Arabia (Tadawul)	5,770.0	+1.8	+20.1	+20.2
South Africa (JSE AS)	24,908.8	+5.6	+15.8	+34.2
Europe (FTSEurofirst 300)	934.5	+2.6	+12.3	+16.2
World, dev'd (MSCI)	1,061.6	+3.7	+15.4	+15.4
Emerging markets (MSCI)	854.5	+3.9	+50.7	+50.7
World, all (MSCI)	270.3	+3.8	+18.7	+18.7
World bonds (Citigroup)	815.7	+1.4	+0.7	+0.7
EMBI+ (JPMorgan)	461.1	+2.3	+17.8	+17.8
Hedge funds (HFRX)§	1,101.0	+1.2	+7.9	+7.9
Volatility, US (VIX)	24.9	25.6	40.0	(levels)
CDSs, Eur (iTRAXX)‡	105.3	−4.5	−47.9	−46.1
CDSs, N Am (CDX)‡	155.4	−6.5	−33.4	−33.4
Carbon trading (EU ETS) €	14.4	+5.5	−10.7	−7.6

*Total return index. †New series. ‡Credit-default swap spreads, basis points. Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Reuters; WM/Reuters; JPMorgan Chase; Bank Leumi le-Israel; CBOE; CMIE; Danske Bank; EEX; HKMA; Markit; Standard Bank Group; UBS; Westpac. §Aug 4th

Manufacturing activity

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From The Economist print edition

Manufacturing industries in the world's leading economies are in a much better state than at the end of last year, according to surveys of purchasing managers. In three of the countries in the chart, China, Britain and Japan, the purchasing managers' indices compiled by Markit, a vendor of financial information, are above 50, indicating that manufacturing is growing again. In December 2008 only China's index was even above 40; in January Japan's dipped below 30. In America, the Institute for Supply Management's index rose by more than four points in July to 48.9, the highest reading since last September. That still implies contraction, though at a less marked rate.